

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

JUNE 30, 2018

Table of Contents

			<u>Page</u>
Officials			3
Independent Auditor's Report			4-6
Management's Discussion and Analysis			7-15
Basic Financial Statements:		<u>Exhibit</u>	
Government-wide Financial Statements:			
Statement of Net Position	A		18
Statement of Activities	B		19
Governmental Fund Financial Statements:			
Balance Sheet	C		20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D		21
Statement of Revenues, Expenditures and Changes in Fund Balances	E		22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F		23
Proprietary Fund Financial Statements:			
Statement of Net Position	G		24
Statement of Revenues, Expenses and Changes in Fund Net Position	H		25
Statement of Cash Flows	I		26
Fiduciary Fund Financial Statements:			
Statement of Fiduciary Net Position	J		27
Statement of Changes in Fiduciary Net Position	K		28
Notes to Financial Statements			29-46
Required Supplementary Information:			
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund			48
Notes to Required Supplementary Information - Budgetary Reporting			49
Schedule of the District's Proportionate Share of the Net Pension Liability			50
Schedule of District Contributions			51
Notes to Required Supplementary Information - Pension Liability			52
Schedule of Changes in the District's Total OPEB Liability, Related Ratios and Notes			53
Supplementary Information:		<u>Schedule</u>	
Nonmajor Governmental Funds:			
Combining Balance Sheet	1		56
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2		57
Capital Projects Fund Accounts:			
Combining Balance Sheet	3		58
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4		59
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5		60-61
Fiduciary Fund - Private Purpose Trust Scholarship Accounts:			
Combining Schedule of Fiduciary Net Position	6		62
Combining Schedule of Changes in Fiduciary Net Position	7		63
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	8		64
Internal Service Funds:			
Combining Schedule of Net Position	9		65
Combining Schedule of Revenues, Expenses and Changes in Fund Net Position	10		66
Combining Schedule of Cash Flows	11		67
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	12		68
Schedule of Expenditures of Federal Awards	13		69
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>			70-71
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance			72-73
Schedule of Findings and Questioned Costs			74-76

Knoxville Community School District

Officials

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

(Before September 2017 Election)

Andrew Schmidt	President	2017
Larissa Van Donselaar	Vice President	2019
Michael Moats	Board Member	2017
Vickie Reed	Board Member	2019
Dawn Rankin	Board Member	2017

(After September 2017 Election)

Andrew Schmidt	President	2019
Larissa Van Donselaar	Vice President	2019
Vickie Reed	Board Member	2019
Marty Duffy	Board Member	2021
Larry Scott	Board Member	2021

School Officials

Cassi Pearson	Superintendent	2018
Craig Mobley	District Secretary/Treasurer and Business Manager	2018
Drew Bracken	Attorney	2018

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of 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, 2018, 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, 2018, 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.

Emphasis of a Matter

As discussed in Note 16 to the financial statements, Knoxville Community School District adopted new accounting guidance related to Governmental Accounting Standard Board (GASB) Statement No. 75, Accounting and Financial Reporting Postemployment Benefits Other Than Pensions. Our opinions are not modified with respect to this matter.

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 Changes in the District's Total OPEB Liability, Related Ratios and Notes on pages 7 through 15 and 48 through 53 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, 2017 (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 17, 2019 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Knoxville Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

January 17, 2019
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Knoxville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2018. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2018 FINANCIAL HIGHLIGHTS

- The District implemented Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, during fiscal year 2018. The beginning net position for governmental activities and business type activities were restated by \$251,131 and \$4,096, respectively, to retroactively report the increase in the OPEB liability as of July 1, 2017. OPEB expense for fiscal year 2017 and deferred outflows of resources at June 30, 2017 were not restated because the information needed to restate those amounts was not available.
- The District's total net position increased from \$12,051,790, restated as of July 1, 2017 to \$12,434,216 at June 30, 2018. Total revenues decreased 1.82% from \$24,010,912 in fiscal year 2017 to \$23,574,335 in fiscal year 2018, while expenses increased 4.77% from \$22,135,067 in fiscal year 2017 to \$23,191,909 during fiscal year 2018.
- General Fund revenues decreased from \$19,617,649 in fiscal year 2017 to \$19,462,442 in fiscal year 2018, while General Fund expenditures increased from \$18,805,264 in fiscal year 2017 to \$19,312,083 in fiscal year 2018. This resulted in an increase in the District's General Fund balance from \$2,740,895 at June 30, 2017 to \$2,891,254 at June 30, 2018, a 5.49% increase from the prior year.
- The decrease in General Fund revenues was primarily attributable to decreases in state sources received in fiscal year 2018. The increase in expenditures was due primarily to an increase in expenditures in the instruction function.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net 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 custodian for the benefit of those outside of the 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 Changes in the District's Total OPEB Liability, Related Ratios and Notes.

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.

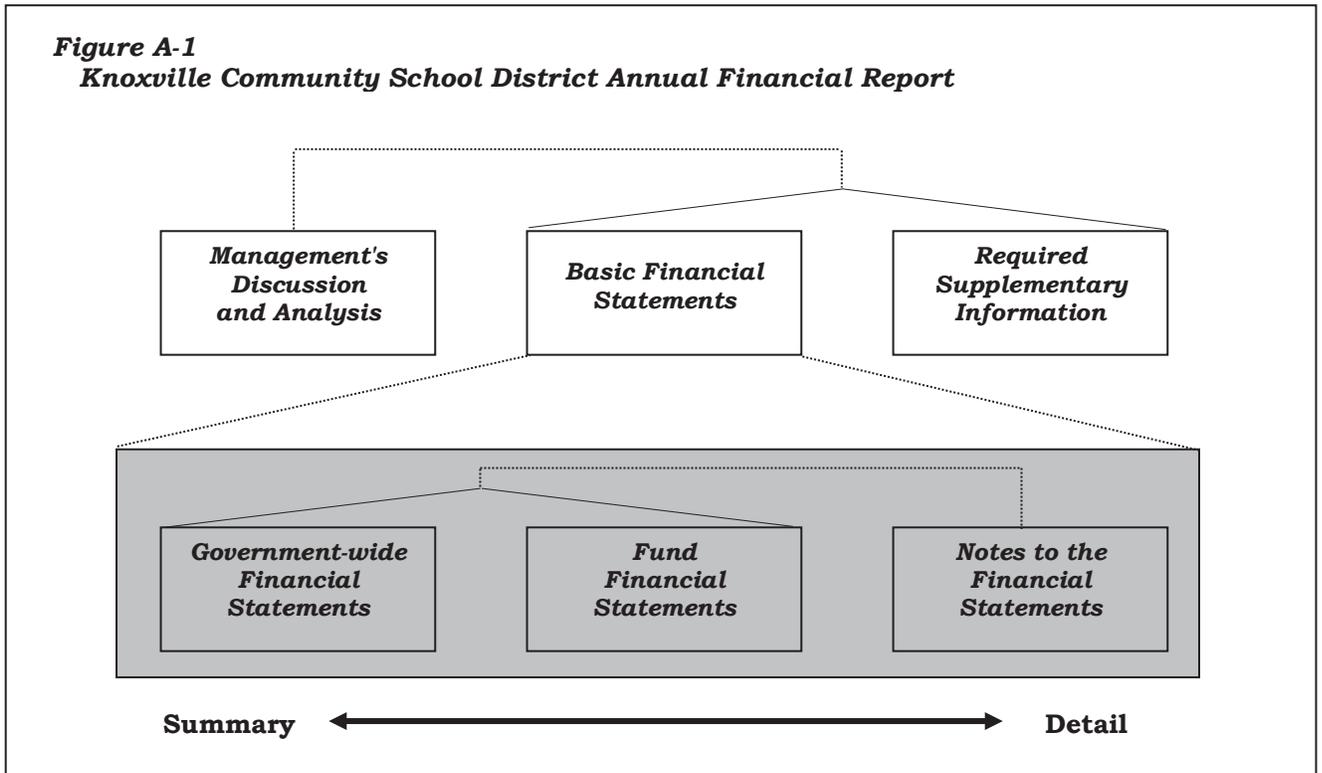


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses; food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of 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.

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 financial 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, 2018 compared to June 30, 2017.

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,	
	2017		2017		2017		
	2018	(Not Restated)	2018	(Not Restated)	2018	(Not Restated)	2017-18
Current and other assets	\$ 16,548,153	15,643,081	93,736	218,911	16,641,889	15,861,992	4.92%
Capital assets	29,159,907	28,925,074	84,787	104,992	29,244,694	29,030,066	0.74%
Total assets	45,708,060	44,568,155	178,523	323,903	45,886,583	44,892,058	2.22%
Deferred outflows of resources	3,049,592	2,579,958	87,575	71,215	3,137,167	2,651,173	18.33%
Long-term liabilities	26,260,108	25,549,793	310,131	300,740	26,570,239	25,850,533	2.78%
Other liabilities	2,968,718	2,382,467	68,288	68,464	3,037,006	2,450,931	23.91%
Total liabilities	29,228,826	27,932,260	378,419	369,204	29,607,245	28,301,464	4.61%
Deferred inflows of resources	6,960,508	6,920,779	21,781	13,971	6,982,289	6,934,750	0.69%
Net position:							
Net investment in capital assets	14,154,907	14,195,074	84,787	104,992	14,239,694	14,300,066	-0.42%
Restricted	3,596,609	3,600,432	-	-	3,596,609	3,600,432	-0.11%
Unrestricted	(5,183,198)	(5,500,432)	(218,889)	(93,049)	(5,402,087)	(5,593,481)	3.42%
Total net position	\$ 12,568,318	12,295,074	(134,102)	11,943	12,434,216	12,307,017	1.03%

Prior to restatement, The District's total net position increased by 1.03%, or \$127,199, 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 \$3,823, or 0.11%, from the prior year. This decrease was primarily due to a decrease in the amount restricted for school infrastructure and physical plant and equipment compared to the prior year.

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 \$191,394, or 3.42%.

Figure A-4 shows the changes in net position for the year ended June 30, 2018 compared to the year ended June 30, 2017.

Figure A-4 Changes in Net Position							
	Governmental Activities		Business Type Activities		Total District	Total Change	
	2018	2017 (Not Restated)	2018	2017 (Not Restated)	2018	2017 (Not Restated)	2017-18
Revenues:							
Program revenues:							
Charges for service	\$ 949,054	1,054,654	282,280	275,537	1,231,334	1,330,191	-7.43%
Operating grants and contributions and restricted interest	1,556,002	1,661,415	510,752	479,054	2,066,754	2,140,469	-3.44%
Capital grants and contributions and restricted interest	-	3,000	-	-	-	3,000	-100.00%
General revenues:							
Property tax	6,454,823	6,422,974	-	-	6,454,823	6,422,974	0.50%
Income surtax	573,234	577,269	-	-	573,234	577,269	-0.70%
Statewide sales, services and use tax	1,625,641	1,702,165	-	-	1,625,641	1,702,165	-4.50%
Unrestricted state grants	11,452,663	11,582,793	-	-	11,452,663	11,582,793	-1.12%
Unrestricted investment earnings	48,557	13,361	1,298	403	49,855	13,764	262.21%
Other	111,798	227,181	8,233	11,106	120,031	238,287	-49.63%
Total revenues	22,771,772	23,244,812	802,563	766,100	23,574,335	24,010,912	-1.82%
Program expenses:							
Instruction	13,636,124	13,671,310	-	-	13,636,124	13,671,310	-0.26%
Support services	6,541,350	5,453,153	768	515	6,542,118	5,453,668	19.96%
Non-instructional programs	-	-	940,744	978,957	940,744	978,957	-3.90%
Other expenses	2,072,923	2,031,132	-	-	2,072,923	2,031,132	2.06%
Total expenses	22,250,397	21,155,595	941,512	979,472	23,191,909	22,135,067	4.77%
Change in net position before other financing sources	521,375	2,089,217	(138,949)	(213,372)	382,426	1,875,845	-79.61%
Transfers	3,000	-	(3,000)	-	-	-	0.00%
Change in net position	524,375	2,089,217	(141,949)	(213,372)	382,426	1,875,845	-79.61%
Net position beginning of year	12,043,943	10,205,857	7,847	225,315	12,051,790	10,431,172	15.54%
Net position end of year	\$ 12,568,318	12,295,074	(134,102)	11,943	12,434,216	12,307,017	1.03%

In fiscal year 2018, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 88.30% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.81% of the revenue from business type activities.

The District's total revenues were approximately \$23.57 million of which approximately \$22.77 million was for governmental activities and approximately \$0.80 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.82% decrease in revenues and a 4.77% increase in expenses. Revenues decreased as a result of decreases in funding from changes for service, operating grants, unrestricted state grants and other revenue. Expenses increased due to an increase in support services expenses incurred compared to the prior year.

Governmental Activities

Revenues for governmental activities were \$22,771,772 and expenses were \$22,250,397.

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, 2018 compared to those expenses for the year ended June 30, 2017.

	Total Cost of Services			Net Cost of Services		
	2017			2017		
	2018	(Not Restated)	2017-18	2018	(Not Restated)	2017-18
Instruction	\$ 13,636,124	13,671,310	-0.26%	11,870,031	11,683,566	1.60%
Support services	6,541,350	5,453,153	19.96%	6,529,677	5,435,372	20.13%
Other expenses	2,072,923	2,031,132	2.06%	1,345,633	1,317,588	2.13%
Totals	\$ 22,250,397	21,155,595	5.17%	19,745,341	18,436,526	7.10%

For the year ended June 30, 2018:

- The cost financed by users of the District's programs was \$949,054.
- Federal, state governments and other donations from local sources subsidized certain programs with grants and contributions totaling \$1,556,002.
- The net cost of governmental activities was financed with \$6,454,823 in property tax, \$573,234 in income surtax, \$1,625,641 in statewide sales, services and use tax, \$11,452,663 in unrestricted state grants, \$48,557 in interest income and \$111,798 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$802,563 and expenses were \$941,512 for the year ended June 30, 2018. 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, 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 \$6,620,768, above last year's ending combined fund balance of \$6,168,205. The primary reason for the increase in combined fund balance in fiscal year 2018 is due to the increase in the General Fund balance.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Revenues decreased due to an decrease in state revenues received compared to the prior year. An increase in expenditures was due to an increase in instructional expenditures incurred compared to the prior year. The Fund balance of the General Fund increased from \$2,740,895 at June 30, 2017 to \$2,891,254 at June 30, 2018.
- The Capital Projects Fund balance decreased from a balance of \$1,263,215 at June 30, 2017 to \$1,248,459 at June 30, 2018. This decrease was due to continued capital outlay expenditures incurred on various construction and facility improvement projects throughout the District.

- The Debt Service Fund balance increased from a balance of \$1,729,710 at June 30, 2017 to \$1,752,681 at June 30, 2018.

Proprietary Fund Highlights

The Proprietary Fund net position decreased from \$7,847 restated at July 1, 2017 to a deficit net position of \$134,102 at June 30, 2018, representing a decrease of 1,808.96%.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended its budget one time to reflect additional expenditures for a new tennis/outdoor basketball court and food costs for non-instructional programs.

The District's revenues were \$840,921 less than budgeted revenues, a variance of 3.45%. The most significant negative variance resulted from the District receiving less in state and local 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, 2018, the District had invested \$29,244,694, 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 0.74% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$1,217,220.

The original cost of the District's capital assets was \$44,930,291. Governmental activities account for \$44,151,718 with the remainder of \$778,573 accounted for in the Proprietary, School Nutrition Fund.

The most significant change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$839,968 at June 30, 2018, compared to \$39,406 at June 30, 2017. This increase is primarily due to the beginning a tennis/outdoor basketball court construction project for the District during fiscal year 2018.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2018	2017	2018	2017	2018	2017	2017-18
Land	\$ 63,966	63,966	-	-	63,966	63,966	0.00%
Construction in progress	839,968	39,406	-	-	839,968	39,406	2031.57%
Buildings	27,073,662	27,810,121	-	-	27,073,662	27,810,121	-2.65%
Machinery and equipment	1,182,311	1,011,581	84,787	104,992	1,267,098	1,116,573	13.48%
Total	\$ 29,159,907	28,925,074	84,787	104,992	29,244,694	29,030,066	0.74%

Long-Term Debt

At June 30, 2018, the District had \$15,169,475 in long-term debt outstanding. This represents a decrease of 0.37% 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 \$13,800,000 at June 30, 2018 payable from the Capital Projects: Statewide Sales, Services and use Tax Fund.

The District had outstanding a capital loan note of \$1,205,000 at June 30, 2018 payable from the Capital Projects: Physical, Property and Equipment Levy Fund.

The District had outstanding computer leases of \$164,475 at June 30, 2018 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2018	2017	2017-18
Revenue bonds	\$ 13,800,000	14,730,000	-6.31%
Capital loan note	1,205,000	-	100.00%
Computer leases	164,475	495,179	-66.78%
Total	\$ 15,169,475	15,225,179	-0.37%

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 variances in enrollment will continue to impact the District's financial position.
- 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 2019 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.

KNOXVILLE COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 9,117,442	42,275	9,159,717
Receivables:			
Property tax:			
Delinquent	60,172	-	60,172
Succeeding year	6,251,267	-	6,251,267
Income surtax	553,523	-	553,523
Accounts	11,659	35,298	46,957
Due from other governments	357,669	-	357,669
Inventories	-	16,163	16,163
Prepaid expenses	196,421	-	196,421
Capital assets not being depreciated:			
Land and construction in progress	903,934	-	903,934
Capital assets, net of accumulated depreciation:			
Buildings and machinery and equipment	28,255,973	84,787	28,340,760
TOTAL ASSETS	45,708,060	178,523	45,886,583
DEFERRED OUTFLOWS OF RESOURCES			
OPEB related deferred outflows	189,252	6,519	195,771
Pension related deferred outflows	2,860,340	81,056	2,941,396
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,049,592	87,575	3,137,167
LIABILITIES			
Accounts payable	884,176	858	885,034
Salaries and benefits payable	1,885,627	49,503	1,935,130
Accrued interest payable	198,915	-	198,915
Unearned revenue	-	17,927	17,927
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	955,000	-	955,000
Capital loan note payable	160,000	-	160,000
Computer leases payable	164,475	-	164,475
Termination benefit payable	268,415	-	268,415
Portion due after one year:			
Revenue bonds payable	12,845,000	-	12,845,000
Capital loan note payable	1,045,000	-	1,045,000
Termination benefit payable	216,865	-	216,865
Net pension liability	9,604,764	275,664	9,880,428
Total OPEB liability	1,000,589	34,467	1,035,056
TOTAL LIABILITIES	29,228,826	378,419	29,607,245
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	6,251,267	-	6,251,267
OPEB related deferred inflows	248,221	8,550	256,771
Pension related deferred inflows	461,020	13,231	474,251
TOTAL DEFERRED INFLOWS OF RESOURCES	6,960,508	21,781	6,982,289
NET POSITION			
Net investment in capital assets	14,154,907	84,787	14,239,694
Restricted for:			
Categorical funding	551,290	-	551,290
Debt service	1,553,766	-	1,553,766
School infrastructure	739,689	-	739,689
Physical plant and equipment	508,770	-	508,770
Management levy puposes	12,428	-	12,428
Student activities	230,666	-	230,666
Unrestricted	(5,183,198)	(218,889)	(5,402,087)
TOTAL NET POSITION	\$ 12,568,318	(134,102)	12,434,216

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 8,169,253	437,696	85,001	(7,646,556)	-	(7,646,556)
Special	2,650,804	88,046	165,133	(2,397,625)	-	(2,397,625)
Other	2,816,067	419,953	570,264	(1,825,850)	-	(1,825,850)
	<u>13,636,124</u>	<u>945,695</u>	<u>820,398</u>	<u>(11,870,031)</u>	<u>-</u>	<u>(11,870,031)</u>
Support services:						
Student	285,430	-	-	(285,430)	-	(285,430)
Instructional staff	1,120,237	-	-	(1,120,237)	-	(1,120,237)
Administration	2,542,206	-	441	(2,541,765)	-	(2,541,765)
Operation and maintenance of plant	1,887,681	-	-	(1,887,681)	-	(1,887,681)
Transportation	705,796	3,359	7,873	(694,564)	-	(694,564)
	<u>6,541,350</u>	<u>3,359</u>	<u>8,314</u>	<u>(6,529,677)</u>	<u>-</u>	<u>(6,529,677)</u>
Long-term debt interest	379,019	-	-	(379,019)	-	(379,019)
Other expenditures						
AEA flowthrough	727,290	-	727,290	-	-	-
Depreciation(unallocated)*	966,614	-	-	(966,614)	-	(966,614)
	<u>1,693,904</u>	<u>-</u>	<u>727,290</u>	<u>(966,614)</u>	<u>-</u>	<u>(966,614)</u>
Total governmental activities	<u>22,250,397</u>	<u>949,054</u>	<u>1,556,002</u>	<u>(19,745,341)</u>	<u>-</u>	<u>(19,745,341)</u>
Business type activities:						
Support services:						
Administration	768	-	-	-	(768)	(768)
Non-instructional programs:						
Food service operations	940,744	282,280	510,752	-	(147,712)	(147,712)
Total business type activities	<u>941,512</u>	<u>282,280</u>	<u>510,752</u>	<u>-</u>	<u>(148,480)</u>	<u>(148,480)</u>
Total	<u>\$ 23,191,909</u>	<u>1,231,334</u>	<u>2,066,754</u>	<u>(19,745,341)</u>	<u>(148,480)</u>	<u>(19,893,821)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 6,033,766	-	6,033,766
Capital outlay				421,057	-	421,057
Income surtax				573,234	-	573,234
Statewide sales, services and use tax				1,625,641	-	1,625,641
Unrestricted state grants				11,452,663	-	11,452,663
Unrestricted investment earnings				48,557	1,298	49,855
Other general revenues				111,798	8,233	120,031
Transfers				3,000	(3,000)	-
Total general revenues				<u>20,269,716</u>	<u>6,531</u>	<u>20,276,247</u>
Change in net position				524,375	(141,949)	382,426
Net position beginning of year, as restated				<u>12,043,943</u>	<u>7,847</u>	<u>12,051,790</u>
Net position end of year				<u>\$ 12,568,318</u>	<u>(134,102)</u>	<u>12,434,216</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, 2018

	General	Capital Projects	Debt Service	Nonmajor	Total
ASSETS					
Cash and pooled investments	\$ 4,717,103	1,635,130	1,752,681	734,201	8,839,115
Receivables:					
Property tax:					
Delinquent	49,546	3,817	-	6,809	60,172
Succeeding year	5,132,843	718,426	-	399,998	6,251,267
Income surtax	553,523	-	-	-	553,523
Accounts	8,307	-	-	3,352	11,659
Due from other governments	219,991	137,678	-	-	357,669
Due from other funds	119,546	-	-	-	119,546
TOTAL ASSETS	\$ 10,800,859	2,495,051	1,752,681	1,144,360	16,192,951
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 338,484	528,166	-	15,116	881,766
Salaries and benefits payable	1,884,755	-	-	872	1,885,627
Total liabilities	2,223,239	528,166	-	15,988	2,767,393
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	5,132,843	718,426	-	399,998	6,251,267
Income surtax	553,523	-	-	-	553,523
Total deferred inflows of resources	5,686,366	718,426	-	399,998	6,804,790
Fund balances:					
Restricted for:					
Categorical funding	551,290	-	-	-	551,290
Debt service	-	-	1,752,681	-	1,752,681
School infrastructure	-	739,689	-	-	739,689
Physical plant and equipment	-	508,770	-	-	508,770
Management levy purposes	-	-	-	497,708	497,708
Student activities	-	-	-	230,666	230,666
Unassigned	2,339,964	-	-	-	2,339,964
Total fund balances	2,891,254	1,248,459	1,752,681	728,374	6,620,768
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 10,800,859	2,495,051	1,752,681	1,144,360	16,192,951

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2018

Total fund balances of governmental funds(page 20)	\$	6,620,768
 <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.		29,159,907
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		352,792
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.		553,523
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.		(198,915)
Pension and OPEB 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	\$ 3,049,592	
Deferred inflows of resources	<u>(709,241)</u>	2,340,351
Long-term liabilities, including bonds and notes payable, termination benefits payable, net pension liability, computer lease payable, and total OPEB liability payable are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		<u>(26,260,108)</u>
Net position of governmental activities(page 18)	\$	<u>12,568,318</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, 2018

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 5,860,723	421,057	-	727,275	7,009,055
Tuition	415,905	-	-	-	415,905
Other	226,267	10,301	7,678	481,160	725,406
State sources	12,419,714	1,633,356	-	12,501	14,065,571
Federal sources	536,833	-	-	-	536,833
Total revenues	19,459,442	2,064,714	7,678	1,220,936	22,752,770
EXPENDITURES:					
Current:					
Instruction:					
Regular	7,878,298	-	-	341,658	8,219,956
Special	2,674,612	-	-	-	2,674,612
Other	2,380,609	-	-	389,213	2,769,822
	12,933,519	-	-	730,871	13,664,390
Support services:					
Student	315,189	-	-	-	315,189
Instructional staff	867,145	18,811	-	-	885,956
Administration	2,309,859	60,333	-	109,665	2,479,857
Operation and maintenance of plant	1,592,034	-	-	86,411	1,678,445
Transportation	567,047	285,875	-	-	852,922
	5,651,274	365,019	-	196,076	6,212,369
Capital outlay	-	1,264,232	-	-	1,264,232
Long-term debt:					
Principal	-	-	1,260,704	-	1,260,704
Interest and fiscal charges	-	-	379,222	-	379,222
	-	-	1,639,926	-	1,639,926
Other expenditures:					
AEA flowthrough	727,290	-	-	-	727,290
Total expenditures	19,312,083	1,629,251	1,639,926	926,947	23,508,207
Excess(Deficiency) of revenues over over(under) expenditures	147,359	435,463	(1,632,248)	293,989	(755,437)
Other financing sources(uses):					
Transfer in	3,000	-	1,655,219	-	1,658,219
Transfer out	-	(1,655,219)	-	-	(1,655,219)
Proceeds from capital loan note	-	1,205,000	-	-	1,205,000
Total other financing sources(uses)	3,000	(450,219)	1,655,219	-	1,208,000
Change in fund balances	150,359	(14,756)	22,971	293,989	452,563
Fund balances beginning of year	2,740,895	1,263,215	1,729,710	434,385	6,168,205
Fund balances end of year	\$ 2,891,254	1,248,459	1,752,681	728,374	6,620,768

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, 2018

Change in fund balances - total governmental funds(page 22) \$ 452,563

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay and depreciation expense and the loss on asset disposal in the current year are as follows:

Capital outlay	\$ 1,409,003	
Depreciation expense	<u>(1,174,170)</u>	234,833

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 24,200

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	(1,205,000)	
Repaid	<u>1,260,704</u>	55,704

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. 203

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. 19,002

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. 982,106

District costs associated with the total OPEB liability implicit subsidy after the measurement date, but before year end. 189,252

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, as follows:

Termination benefits	(29,569)	
Pension expense	(1,288,541)	
Total OPEB liability	<u>(115,378)</u>	<u>(1,433,488)</u>

Changes in net position of governmental activities(page 19) \$ 524,375

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

	Business Type	
	Activities Enterprise: Fund School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Cash and pooled investments	\$ 42,275	278,327
Accounts receivable	35,298	-
Inventories	16,163	-
Prepaid expenses	-	196,421
Capital assets, net of accumulated depreciation	84,787	-
TOTAL ASSETS	178,523	474,748
DEFERRED OUTFLOWS OF RESOURCES		
OPEB related deferred outflows	6,519	-
Pension related deferred outflows	81,056	-
TOTAL DEFERRED OUTFLOWS	87,575	-
LIABILITIES		
Current liabilities:		
Due to other funds	-	119,546
Accounts payable	858	2,410
Salaries and benefits payable	49,503	-
Unearned revenue	17,927	-
Total current liabilities:	68,288	121,956
Noncurrent liabilities:		
Net pension liability	275,664	-
Total OPEB liability	34,467	-
Total noncurrent liabilities:	310,131	-
TOTAL LIABILITIES	378,419	121,956
DEFERRED INFLOWS OF RESOURCES		
OPEB related deferred inflows	8,550	-
Pension related deferred inflows	13,231	-
TOTAL DEFERRED OUTFLOWS	21,781	-
NET POSITION		
Invested in capital assets	84,787	-
Unrestricted	(218,889)	352,792
TOTAL NET POSITION	\$ (134,102)	352,792

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, 2018

	Business Type	
	Activites:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 282,280	-
Miscellaneous	8,233	2,565,252
TOTAL OPERATING REVENUES	<u>290,513</u>	<u>2,565,252</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Benefits	-	2,541,052
Services	768	-
	<u>768</u>	<u>2,541,052</u>
Non-instructional programs:		
Food service operations:		
Salaries	304,535	-
Benefits	130,421	-
Services	1,453	-
Supplies	461,285	-
Depreciation	43,050	-
	<u>940,744</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>941,512</u>	<u>2,541,052</u>
OPERATING INCOME(LOSS)	<u>(650,999)</u>	<u>24,200</u>
NON-OPERATING REVENUES:		
State sources	6,485	-
Federal sources	504,267	-
Interest on investments	1,298	-
TOTAL NON-OPERATING REVENUES	<u>512,050</u>	<u>-</u>
Change in net position before other financing uses	(138,949)	24,200
Other financing uses:		
Transfers out	<u>(3,000)</u>	<u>-</u>
Change in net position	(141,949)	24,200
Net position beginning of year, as restated	<u>7,847</u>	<u>328,592</u>
Net position end of year	<u>\$ (134,102)</u>	<u>352,792</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 290,839	-
Cash received from miscellaneous	8,233	2,565,252
Cash payments to employees for services	(438,824)	(2,551,941)
Cash payments to suppliers for goods or services	(395,991)	2,410
Net cash provided by(used in) operating activities	<u>(535,743)</u>	<u>15,721</u>
Cash flows from non-capital financing activities:		
Interfund loan repayments	-	97,650
State grants received	6,485	-
Federal grants received	435,933	-
Net cash provided by non-capital financing activities	<u>442,418</u>	<u>97,650</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	<u>(22,845)</u>	-
Cash flows from investing activities:		
Interest on investments	<u>1,298</u>	-
Net increase(decrease) in cash and pooled investments	(114,872)	113,371
Cash and pooled investments beginning of year	<u>160,147</u>	<u>164,956</u>
Cash and pooled investments end of year	<u>\$ 45,275</u>	<u>278,327</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (650,999)	24,200
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	68,334	-
Depreciation	43,050	-
Increase in inventories	(521)	-
Decrease in accounts receivable	7,824	-
Decrease in prepaid expenses	-	(10,889)
Decrease(Increase) in accounts payable	(298)	2,410
Decrease in salaries and benefits payable	(613)	-
Increase in net pension liability	9,871	-
Increase in deferred outflows of resources	(16,360)	-
Increase in deferred inflows of resources	7,810	-
Increase in deferred revenue	735	-
Decrease in OPEB liability	(4,576)	-
Net cash provided by(used in) operating activities	<u>\$ (535,743)</u>	<u>15,721</u>

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2018 the District received Federal commodities valued at \$68,334.

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	<u>Private Purpose Trust Scholarship Fund</u>	<u>Agency Fund</u>
ASSETS		
Cash and pooled investments	<u>\$ 6,072</u>	<u>\$ 1,661</u>
LIABILITIES		
Due to other groups	<u>-</u>	<u>1,661</u>
NET POSITION		
Held in trust for scholarships	<u>\$ 6,072</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, 2018

	<u>Private Purpose Trust Scholarship Fund</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$ -</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>3,108</u>
Change in net position	(3,108)
Net position beginning of year	<u>9,180</u>
Net position end of year	<u><u>\$ 6,072</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

(1) Summary of Significant Accounting Policies

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 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 nonmajor School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

Additional proprietary funds reported by the District are as follows:

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/Net Position

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 amortized 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 is 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 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 reported as a deferred inflow of resources 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, 2016 assessed property valuations; is for the tax accrual period July 1, 2017 through June 30, 2018 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2017.

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 acquired July 1, 1980 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 if purchased or constructed. 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. Reportable 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	\$ -
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 year(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 and OPEB expense. The unamortized portion of the net difference between projected and actual earnings on pension plan investments and contributions from the employer after the measurement date but before the end of the District’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.

Total OPEB Liability - For purposes of measuring the total OPEB liability, deferred outflows/inflows of resources related to OPEB and OPEB expense, information has been determined based on the District’s actuary report. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. The total OPEB 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 year(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 year or expected to be collected

soon enough thereafter to be used to pay liabilities of the current year. 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 unrecognized items not yet charged to pension expense.

Fund Balance - 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 the preceding classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The District’s deposits in banks at June 30, 2018 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; 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, 2018, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$3,648,928 pursuant to Rule 2a-7 under the Investment Company Act of 1940. There were no limitations or restrictions on withdrawals of the ISJIT investments. The investments in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor’s Financial Services.

(3) Due From and Due to Other Funds

The detail of interfund payables and receivables for the year ended June 30, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Internal Service Fund: Health Insurance	\$ 119,546

The Internal Service: Health Insurance Fund is repaying the General Fund for expenses paid, but which were not reimbursed by year end.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2018 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	1,655,219
General	Enterprise: Nutrition	<u>3,000</u>
		<u>\$ 1,658,219</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 Enterprise Nutrition Fund to the General Fund was for a federal grant recorded in the incorrect fund.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2018 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 63,966	-	-	63,966
Construction in progress	39,406	831,528	30,966	839,968
Total capital assets not being depreciated	<u>103,372</u>	<u>831,528</u>	<u>30,966</u>	<u>903,934</u>
Capital assets being depreciated:				
Buildings	38,954,387	230,155	-	39,184,542
Machinery and equipment	3,834,943	378,286	149,987	4,063,242
Total capital assets being depreciated	<u>42,789,330</u>	<u>608,441</u>	<u>149,987</u>	<u>43,247,784</u>
Less accumulated depreciation for:				
Buildings	11,144,266	966,614	-	12,110,880
Machinery and equipment	2,823,362	207,556	149,987	2,880,931
Total accumulated depreciation	<u>13,967,628</u>	<u>1,174,170</u>	<u>149,987</u>	<u>14,991,811</u>
Total capital assets being depreciated, net	<u>28,821,702</u>	<u>(565,729)</u>	<u>-</u>	<u>28,255,973</u>
Governmental activities capital assets, net	<u>\$ 28,925,074</u>	<u>265,799</u>	<u>30,966</u>	<u>29,159,907</u>
Business type activities:				
Machinery and equipment	\$ 755,728	22,845	2,733	778,573
Less accumulated depreciation	650,736	43,050	2,733	693,786
Business type activities capital assets, net	<u>\$ 104,992</u>	<u>(20,205)</u>	<u>-</u>	<u>84,787</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Regular	\$ 50,323
Support services:	
Administration	593
Operation and maintenance of plant	44,207
Transportation	112,433
	<u>207,556</u>
Unallocated depreciation	966,614
Total governmental activities depreciation expense	<u>\$ 1,174,170</u>
Business type activities:	
Food service operations	<u>\$ 43,050</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance Beginning of Year as restated	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 14,730,000	-	930,000	13,800,000	955,000
Computer lease	495,179	-	330,704	164,475	164,475
Capital loan note	-	1,205,000	-	1,205,000	160,000
Termination benefits	455,711	269,241	239,672	485,280	268,415
Net pension liability	8,986,602	618,162	-	9,604,764	-
Total OPEB liability	1,133,432	-	132,843	1,000,589	-
Total	\$ 25,800,924	2,092,403	1,633,219	26,260,108	1,547,890
Business Type Activities:					
Net pension liability	\$ 265,793	9,871	-	275,664	-
Total OPEB liability	39,043	-	4,576	34,467	-
Total	\$ 304,836	9,871	4,576	310,131	-

Revenue Bonds Payable

Details of the District's June 30, 2018 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
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	2.15	385,000	103,361	2.68	450,000	135,608
2023	2.30	390,000	94,738	2.68	475,000	123,213
2024-2028	2.50-3.10	2,110,000	310,594	2.68	2,550,000	416,472
2029-2030	3.20-3.25	935,000	30,516	2.68	1,810,000	67,134
Total		\$ 4,930,000	892,818		\$ 6,600,000	1,220,874

Refunding Bond issue of May 18, 2016				Total		
Interest Rates	Principal	Interest	Principal	Interest	Total	
2.48	% \$ 165,000	54,250	955,000	349,556	1,304,556	
2.48	165,000	50,158	975,000	327,990	1,302,990	
2.48	170,000	46,004	995,000	304,922	1,299,922	
2.48	180,000	41,664	1,015,000	280,633	1,295,633	
2.48	180,000	37,200	1,045,000	255,151	1,300,151	
2.48	985,000	115,382	5,645,000	842,448	6,487,448	
2.48	425,000	10,726	3,170,000	108,376	3,278,376	
	\$ 2,270,000	355,384	13,800,000	2,469,076	16,269,076	

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 on 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 80% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$16,269,076. For the current year, \$930,000 was paid in principal and \$369,587 was paid in interest on the revenue bonds and statewide sales, services and use tax revenue were \$1,625,641.

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.

Capital Loan Note Payable

On April 10, 2018, the District issued a capital loan note to provide funds for the purchase of construction services. The note bears interest at 2.45% per annum and are payable from the Capital Projects: Physical Plant & Equipment Levy Fund. Details of the District’s note of indebtedness at June 30, 2018 are as follows:

Year Ending June 30,	Capital loan note of April 10, 2018				
	Interest Rates	Principal	Interest	Total	
2019	2.45 %	\$ 160,000	33,705	193,705	
2020	2.45	165,000	25,603	190,603	
2021	2.45	170,000	21,560	191,560	
2022	2.45	170,000	17,395	187,395	
2023	2.45	175,000	13,230	188,230	
2024-2025	2.45	365,000	13,475	378,475	
		<u>1,205,000</u>	<u>124,967</u>	<u>1,329,967</u>	

During the year ended June 30, 2018, the District did not make any principal or interest payments.

Computer Lease Payable

On January 10, 2017, the District entered into a lease agreement with Apple for computers for the District’s staff. 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 January 10, 2017			
	Interest Rates	Principal	Interest	Total
2019	3.20 %	\$ 164,475	5,263	169,738

Termination Benefits

During fiscal year 2018, 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.

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.

At June 30, 2018, the District has outstanding obligations to 31 participants under the offerings listed above with a total liability of \$485,280. Early retirement benefits paid during the year ended June 30, 2018, totaled \$239,672. A liability has been recorded in the government-wide financial statements representing the District’s commitment to fund non-current early retirement.

(7) Bond Defeasement

On May 18, 2016, the District issued \$2,425,000 in revenue bonds with interest rates of 2.48 percent, released \$469,340 of the Series 2011 revenue bond reserve and \$211,248 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, 2018 \$2,330,000 of such bonds is outstanding. Defeasement of principal and interest for the year was \$155,000 and \$95,600 respectively. The economic savings for the refunding was \$73,473.

(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 P.O. Box 9117, Des Moines, Iowa 50306-9117 or at 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, any time 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, except members with service before June 30, 2012, will use the highest three-year average salary as of that date 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% 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% 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 2018, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the District contributed 8.93% of covered payroll, for a total rate of 14.88%.

The District's contributions to IPERS for the year ended June 30, 2018 were \$1,009,255.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018, the District reported a liability of \$9,880,428 for its

proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the District's proportion was 0.148327%, which was an increase of 0.001307% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$1,314,980. At June 30, 2018, 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	\$ 90,712	85,606
Changes of assumptions	1,716,763	-
Net difference between projected and actual earnings on IPERS' investments	-	103,197
Changes in proportion and differences between District contributions and the District's proportionate share of contributions	124,666	285,448
District contributions subsequent to the measurement date	1,009,255	-
Total	<u>\$ 2,941,396</u>	<u>474,251</u>

\$1,009,255 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, 2019. 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
2019	\$ 195,378
2020	678,513
2021	409,493
2022	53,702
2023	120,804
	<u>\$ 1,457,890</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2017)	2.60% per annum
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated March 24, 2017.

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' 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	24.0%	6.25%
International equity	16.0	6.71
Core plus fixed income	27.0	2.25
Public credit	3.5	3.46
Public real assets	7.0	3.27
Cash	1.0	(0.31)
Private equity	11.0	11.15
Private real assets	7.5	4.18
Private credit	3.0	4.25
Total	100%	

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, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments to 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 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
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District's proportionate share of the net pension liability	\$ 16,278,982	9,880,428	4,504,414
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IPERS' Fiduciary Net Position - Detailed information about the IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2018, the District reported payables IPERS of \$124,283 for legally required District contributions and \$82,809 for legally required employee contributions withheld from employee wages which had not yet been remitted to IPERS.

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District administers a single-employer benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits - Individuals who are employed by Knoxville Community School District and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical and prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Retired participants must be age 55 or older at retirement. At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	15
Active employees	210
Total	225

Total OPEB Liability - The District's total OPEB liability of \$1,035,056 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2018)	3.00% per annum.
Rates of salary increase (effective June 30, 2018)	3.00% per annum, including inflation.
Discount rate (effective June 30, 2018)	3.58% compounded annually, including inflation.
Healthcare cost trend rate (effective June 30, 2018)	6.50% initial rate decreasing variably to an ultimate rate of 5.00%

Discount Rate - The discount rate used to measure the total OPEB liability was 3.58% which reflects the index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Mortality rates are from the RP-2014 annuitant mortality table adjusted to 2006 with MP-2017 generational projection of future mortality improvement.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Total OPEB liability beginning of year, as restated	\$ 1,172,475
Changes for the year:	
Service cost	33,807
Interest	38,217
Differences between expected and actual experiences	(286,628)
Changes in assumptions	218,535
Benefit payments	<u>(141,350)</u>
Net changes	<u>(137,419)</u>
Total OPEB liability end of year	<u>\$ 1,035,056</u>

Changes of assumptions reflect a change in the discount rate from 2.50% in fiscal year 2017 to 3.58% in fiscal year 2018.

Sensitivity of the District's Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate.

	1% Decrease (2.58%)	Discount Rate (3.58%)	1% Increase (4.58%)
Total OPEB liability	\$ 1,111,695	1,035,056	966,363

Sensitivity of the District's Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of the District as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.50%) or 1% higher (7.50%) than the current healthcare cost trend rates.

	1% Decrease (5.50%)	Healthcare Cost Trend Rate (6.50%)	1% Increase (7.50%)
Total OPEB liability	\$ 959,372	1,035,056	1,121,756

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB - For the year ended June 30, 2018, the District recognized OPEB expense of \$63,931. At June 30, 2018, the District reported deferred outflows/inflows of resources related to OPEB from the following resources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ (256,771)	-
Changes in assumptions	-	195,771
Total	\$ (256,771)	195,771

\$61,000 reported as deferred inflows of resources related to OPEB resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ended June 30,	Amount
2019	\$ (7,093)
2020	(7,093)
2021	(7,093)
2022	(7,093)
2023	(7,093)
Thereafter	<u>(25,535)</u>
Total	\$ <u>(61,000)</u>

(10) Risk Management

The District has a self-funded dental insurance plan. Total out of pocket expense per participant is \$1,000. Settled claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$185,651 at June 30, 2018.

The Knoxville Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) 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 \$727,290 for the year ended June 30, 2018 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Construction Commitment

The District has entered into various contracts totaling \$1,397,195 for a tennis/outdoor basketball court and a maintenance storage building. As of June 30, 2018, costs of \$839,968 had been incurred against the contracts. The balance remaining of \$557,227 at June 30, 2018 will be paid as work on the projects progresses.

(13) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

Tax Abatements of Other Entities

Property tax revenues of the District were reduced by the following amounts for the year ended June 30, 2018 under agreements entered into by the following entities:

Entity	Tax Abatement Program	Amount of Tax Abated
City of Knoxville	Urban renewal and economic development projects	\$ 276,982

The State of Iowa reimburses the District an amount equivalent to the increment of valuation on which property tax is divided times \$5.40 per \$1,000 of taxable valuation. For the year ended June 30, 2018, this reimbursement amounted to \$104,018.

(14) Categorical Funding

In accordance with Iowa Administrative Code Section 98.1, categorical funding is financial support from the state and federal governments targeted for particular categories of students, special programs, or special purposes. This support is in addition to school district or area education agency general purpose, for purposes beyond the basic educational program and most often has restrictions on its use. Any portion of categorical funding provided by the state that is not expended by the end of the fiscal year must be carried forward as a restricted fund balance.

The District’s restricted fund balance for categorical funding at June 30, 2018 is comprised of the following programs:

Program	Amount
Gifted and talented programs	\$ 114,729
Teacher leadership state aid	52,184
Four-year-old preschool state aid	335,513
Health Care Trust Fund	10,000
Successful progression for early readers	27
Professional development	38,837
Total	<u>\$ 551,290</u>

(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	Management Levy Purposes	Debt Service	Unassigned/ Restricted
Fund Balance (Exhibit C)	\$ -	497,708	1,752,681	2,339,964
Capital assets, net of accumulated depreciation	29,159,907	-	-	-
Revenue bond indebtedness expended for capital assets	(13,800,000)	-	-	-
Capital loan note indebtedness	(1,205,000)	-	-	-
Computer lease indebtedness	-	-	-	(164,475)
Income surtax	-	-	-	553,523
Accrued interest payable	-	-	(198,915)	-
Termination benefits payable	-	(485,280)	-	-
Internal service	-	-	-	352,792
Net pension liability	-	-	-	(9,604,764)
Pension related deferred outflows	-	-	-	2,860,340
Pension related deferred inflows	-	-	-	(461,020)
Total OPEB liability	-	-	-	(1,000,589)
OPEB related deferred outflows	-	-	-	189,252
OPEB related deferred inflows	-	-	-	(248,221)
Net position (Exhibit A)	\$ 14,154,907	12,428	1,553,766	(5,183,198)

(16) Accounting Change/Restatement

Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB), was implemented during fiscal year 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with OPEB benefits, including additional note disclosure and required supplementary information. In addition, GASB Statement No. 75 requires a state or local government employer to use the entry age normal actuarial cost method, and requires deferred outflows of resources and deferred inflows of resources which arise from other types of events related to OPEB to be recognized. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources are not reported. Beginning net position for governmental activities and business type activities was restated to retroactively report the change in valuation of the beginning total OPEB liability, as follows:

	Governmental Activities	Business type Activities
Net position June 30, 2017, as previously reported	\$ 12,295,074	11,943
OPEB obligation measured under previous standards	882,301	34,947
Total OPEB liability at June 30, 2017	(1,133,432)	(39,043)
Net position July 1, 2017, as restated	\$ 12,043,943	7,847

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, 2018

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 8,150,366	291,811	8,442,177	8,783,863	8,783,863	(341,686)
State sources	14,065,571	6,485	14,072,056	14,517,391	14,517,391	(445,335)
Federal sources	536,833	504,267	1,041,100	1,095,000	1,095,000	(53,900)
Total revenues	22,752,770	802,563	23,555,333	24,396,254	24,396,254	(840,921)
Expenditures/Expenses:						
Instruction	13,664,390	-	13,664,390	15,875,000	15,875,000	2,210,610
Support services	6,212,369	768	6,213,137	6,846,000	6,846,000	632,863
Non-instructional programs	-	940,744	940,744	1,025,000	1,075,000	134,256
Other expenditures	3,631,448	-	3,631,448	3,886,906	4,636,906	1,005,458
Total expenditures/expenses	23,508,207	941,512	24,449,719	27,632,906	28,432,906	3,983,187
Excess(Deficiency) of revenues over(under) expenditures/expenses	(755,437)	(138,949)	(894,386)	(3,236,652)	(4,036,652)	3,142,266
Other financing sources(uses), net	1,208,000	(3,000)	1,205,000	-	-	(1,205,000)
Excess(Deficiency) of revenues over(under) expenditures/expenses and other financing sources	452,563	(141,949)	310,614	(3,236,652)	(4,036,652)	(4,347,266)
Balances beginning of year, as restated	6,168,205	7,847	6,176,052	5,400,637	5,400,637	775,415
Balances end of year	\$ 6,620,768	(134,102)	6,486,666	2,163,985	1,363,985	5,122,681

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2018

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 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 \$800,000.

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

	2018	2017	2016	2015
District's proportion of the net pension liability	0.148327%	0.147019%	0.152620%	0.162490%
District's proportionate share of the net pension liability	\$ 9,880	9,252	7,540	6,444
District's covered-employee payroll	\$ 11,072	10,551	10,456	10,627
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.23%	87.69%	72.11%	60.64%
IPERS' net position as a percentage of the total pension liability	82.21%	81.82%	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
FOR THE LAST TEN YEARS
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	\$ 1,009	989	942	934	949	863	807	719	706	683
Contributions in relation to the statutorily required contribution	\$ (1,009)	(989)	(942)	(934)	(949)	(863)	(807)	(719)	(706)	(683)
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 9,514	11,072	10,551	10,456	10,627	9,954	10,000	10,345	10,617	10,756
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2018

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for 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.

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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 (unfunded actuarial liability) 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.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN THE DISTRICT'S
TOTAL OPEB LIABILITY, RELATED RATIOS AND NOTES
FOR THE CURRENT YEAR
REQUIRED SUPPLEMENTARY INFORMATION

	2018
Service cost	\$ 33,807
Interest cost	38,217
Differences between expected and actual experiences	(286,628)
Changes in assumptions	218,535
Benefit payments	(141,350)
Net change in total OPEB liability	(137,419)
Total OPEB liability beginning of year, as restated	1,172,475
Total OPEB liability end of year	\$ 1,035,056
Covered-employee payroll	\$ 9,514,433
Total OPEB liability as a percentage of covered-employee payroll	10.88%

Notes to Schedule of Changes in the District's Total OPEB Liability and Related Ratios

Changes in benefit terms:

There were no significant changes in benefit terms.

Changes in assumption:

Changes in assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

Year ended June 30, 2018	3.58%
Year ended June 30, 2017	2.50%

KNOXVILLE COMMUNITY SCHOOL DISTRICT

SUPPLEMENTARY INFORMATION

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2018

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 492,040	242,161	734,201
Receivables:			
Property tax:			
Delinquent	6,809	-	6,809
Succeeding year	399,998	-	399,998
Accounts	101	3,251	3,352
TOTAL ASSETS	\$ 898,948	245,412	1,144,360
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,242	13,874	15,116
Salaries and benefits payable	-	872	872
Total liabilities	1,242	14,746	15,988
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	399,998	-	399,998
Fund balances:			
Restricted for:			
Management levy purposes	497,708	-	497,708
Student activities	-	230,666	230,666
Total fund balances	497,708	230,666	728,374
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 898,948	245,412	1,144,360

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, 2018

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 727,275	-	727,275
Other	76,550	404,610	481,160
State sources	12,501	-	12,501
Total revenues	<u>816,326</u>	<u>404,610</u>	<u>1,220,936</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	341,658	-	341,658
Other	-	389,213	389,213
Support services:			
Administration	106,556	3,109	109,665
Operation and maintenance of plant	86,411	-	86,411
Total expenditures	<u>534,625</u>	<u>392,322</u>	<u>926,947</u>
Change in fund balances	281,701	12,288	293,989
Fund balances beginning of year	<u>216,007</u>	<u>218,378</u>	<u>434,385</u>
Fund balances end of year	<u>\$ 497,708</u>	<u>230,666</u>	<u>728,374</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUND ACCOUNTS
 JUNE 30, 2018

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 602,011	1,033,119	1,635,130
Receivables:			
Property tax:			
Delinquent	-	3,817	3,817
Succeeding year	-	718,426	718,426
Due from other governments	137,678	-	137,678
TOTAL ASSETS	\$ 739,689	1,755,362	2,495,051
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	528,166	528,166
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	718,426	718,426
Fund balances:			
Restricted for:			
School infrastructure	739,689	-	739,689
Physical plant and equipment levy	-	508,770	508,770
Total fund balances	739,689	508,770	1,248,459
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 739,689	1,755,362	2,495,051

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, 2018

	Capital Projects		
	Statewide Sales, Services & Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	421,057	421,057
Other	3,187	7,114	10,301
State sources	1,625,641	7,715	1,633,356
Total revenues	1,628,828	435,886	2,064,714
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	-	18,811	18,811
Adminstration	7,000	53,333	60,333
Transportation	-	285,875	285,875
Other expenditures:			
Capital outlay	174,580	1,089,652	1,264,232
Total expenditures	181,580	1,447,671	1,629,251
Excess(Deficiency) of revenues over(under) expenditures	1,447,248	(1,011,785)	435,463
Other financing sources(uses):			
Capital loan note proceeds	-	1,205,000	1,205,000
Transfer out	(1,655,219)	-	(1,655,219)
Total other financing sources(uses)	(1,655,219)	1,205,000	(450,219)
Change in fund balances	(207,971)	193,215	(14,756)
Fund balances beginning of year	947,660	315,555	1,263,215
Fund balances end of year	\$ 739,689	508,770	1,248,459

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2018

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund/ Intrafund Transfers	Balance End of Year
<u>Academic Clubs:</u>					
HS Band	\$ 15,992	890	8,549	-	8,333
HS Camera Club	8,107	1,675	2,604	-	7,178
HS Drama Club	8,922	18,348	11,308	-	15,962
HS Science Club	4,638	10,263	12,279	-	2,622
HS Vocal	740	9,996	10,100	-	636
Shooting Club	163	2,872	3,035	-	-
	<u>38,562</u>	<u>44,044</u>	<u>47,875</u>	<u>-</u>	<u>34,731</u>
<u>Athletic Support:</u>					
Baseball Club	10,647	15,495	24,962	-	1,180
General Athletics	26,473	44,116	21,099	7,639	57,129
Girls Softball Club	6,959	4,331	7,869	-	3,421
Boys Basketball Club	507	-	460	-	47
Panther Football Club	5,744	20,518	10,823	-	15,439
Boys Soccer Club	2,148	220	1,781	-	587
Girls Basketball Club	3,143	56,223	56,360	-	3,006
Panther Girls Track Club	928	5,086	3,727	-	2,287
Girls Soccer Club	1,892	6,158	4,173	-	3,877
Wrestling Club	744	-	630	-	114
Volleyball Club	7,124	3,069	4,985	-	5,208
Bowling Club	5,839	1,552	4,173	-	3,218
Girls Golf Club	42	98	-	-	140
Boys Golf Club	420	-	481	61	-
Boys Track Club	1,304	2,718	2,736	-	1,286
Girls Tennis Club	275	156	30	-	401
Cross Country Club	7,248	1,930	626	-	8,552
	<u>81,437</u>	<u>161,670</u>	<u>144,915</u>	<u>7,700</u>	<u>105,892</u>
<u>Boys Athletics:</u>					
Baseball	-	5,713	6,722	1,009	-
Boys Basketball	-	9,289	6,783	(2,506)	-
Boys Cross Country	-	1,205	1,436	231	-
Boys Golf	-	625	2,786	2,161	-
Boys Soccer	-	3,456	5,413	1,957	-
Boys Tennis	78	80	873	793	78
Boys Track	-	4,616	4,816	200	-
Football	-	20,520	12,102	(8,418)	-
Wrestling	-	4,286	5,427	1,141	-
	<u>78</u>	<u>49,790</u>	<u>46,358</u>	<u>(3,432)</u>	<u>78</u>
<u>Classes:</u>					
KHS Freshman Class	9,200	250	1,118	(8,332)	-
KHS Junior Class	-	9,001	6,191	8,332	11,142
	<u>9,200</u>	<u>9,251</u>	<u>7,309</u>	<u>-</u>	<u>11,142</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	408	11,802	3,987	(4,254)	3,969
Drill Team	3,912	13,627	14,009	4,254	7,784
	<u>4,320</u>	<u>25,429</u>	<u>17,996</u>	<u>-</u>	<u>11,753</u>
<u>Girls Athletics:</u>					
Girls Basketball	-	9,061	6,032	(3,029)	-
Girls Cross Country	-	1,205	1,436	231	-
Girls Golf	-	-	2,003	2,003	-
Girls Soccer	-	2,779	2,509	(270)	-
Girls Tennis	-	150	463	313	-
Girls Track	-	4,520	4,727	207	-
Softball	-	4,131	3,486	(645)	-
Volleyball	-	6,045	3,469	(2,576)	-
Bowling	-	444	44	(400)	-
	<u>-</u>	<u>28,335</u>	<u>24,169</u>	<u>(4,166)</u>	<u>-</u>
<u>Northstar Elementary Activities:</u>					
Northstar Activity	21,534	7,802	10,696	-	18,640
<u>Other Activities:</u>					
Activity Interest	-	3,537	3,108	(429)	-
Middle School Activity	8,715	12,930	16,586	-	5,059
High School Activity	2,248	24,819	22,853	-	4,214
District Student Activity	17,614	-	4,290	-	13,324
K-Fund Yearbook	-	4,467	3,556	-	911
National Honor Society	1,037	-	57	-	980
Panther Club Scholarship	-	-	327	327	-
Student Senate	7,563	6,876	3,925	-	10,514
Student Wellness	2,822	-	1,650	-	1,172
	<u>39,999</u>	<u>52,629</u>	<u>56,352</u>	<u>(102)</u>	<u>36,174</u>
<u>Vocational Clubs:</u>					
FCCLA Account	2,980	10	445	-	2,545
FFA Account	15,511	23,290	31,118	-	7,683
	<u>18,491</u>	<u>23,300</u>	<u>31,563</u>	<u>-</u>	<u>10,228</u>
<u>West Elementary Activities:</u>					
West Activity	4,757	2,360	5,089	-	2,028
Total	<u>\$ 218,378</u>	<u>404,610</u>	<u>392,322</u>	<u>-</u>	<u>230,666</u>

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF FIDUCIARY NET POSTION
 PRIVATE PURPOSE TRUST SCHOLARSHIP ACCOUNTS
 JUNE 30, 2018

	Private Purpose Trust - Scholarship Accounts			
	Tunnie Memorial	Norton Scholarship	Auditorium Project	Total
ASSETS:				
Cash and pooled investments	\$ 584	65	5,423	6,072
LIABILITIES	-	-	-	-
NET POSITION:				
Held in trust for scholarships	\$ 584	65	5,423	6,072

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, 2018

	Private Purpose Trust - Scholarship Accounts				
	Tunnie Memorial	Cox Scholarship	Norton Scholarship	Auditorium Project	Total
ADDITIONS:					
Local sources:					
Gifts and contributions	\$ -	-	-	-	-
DEDUCTIONS:					
Instruction:					
Regular:					
Scholarships awarded	-	3,108	-	-	3,108
Change in net position	-	(3,108)	-	-	(3,108)
Net position beginning of year	584	3,108	65	5,423	9,180
Net position end of year	\$ 584	-	65	5,423	6,072

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2018

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<u>KCSD EMPLOYEE FLEX SPENDING</u>				
ASSETS				
Cash and pooled investments	\$ 1,589	79,901	79,829	1,661
LIABILITIES				
Due to other groups	\$ 1,589	79,901	79,829	1,661

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2018

	Governmental Activities:		
	Internal Service Funds		
	Health Insurance	Self-funded Dental Insurance	Total
ASSETS:			
Cash and pooled investments	\$ 92,676	185,651	278,327
Prepaid expenses	196,421	-	196,421
TOTAL ASSETS	289,097	185,651	474,748
LIABILITIES:			
Accounts payable	2,410	-	2,410
Due to other funds	119,546	-	119,546
TOTAL LIABILITIES	121,956	-	121,956
NET POSITION:			
Unrestricted	\$ 167,141	185,651	352,792

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

	Governmental Activities:		
	Internal Service Funds		
	Self-funded		Total
Health Insurance	Dental Insurance		
OPERATING REVENUES:			
Local sources:			
Miscellaneous	\$ 2,392,806	172,446	2,565,252
OPERATING EXPENSES:			
Support services:			
Administration:			
Benefits	2,389,301	151,751	2,541,052
Change in net position	3,505	20,695	24,200
Net position beginning of year	163,636	164,956	328,592
Net position end of year	\$ 167,141	185,651	352,792

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
INTERNAL SERVICE FUNDS
COMBINING SCHEDULE OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

	Governmental Activities: Internal Service Funds		
	Self-funded		
	Health Insurance	Dental Insurance	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 2,392,806	172,446	2,565,252
Cash payments to suppliers for employees for services	(2,400,190)	(151,751)	(2,551,941)
Cash payments from suppliers for goods or services	2,410	-	2,410
Net cash provided by(used in) operating activities	<u>(4,974)</u>	<u>20,695</u>	<u>15,721</u>
Cash flows from non-capital financing activities:			
Borrowings from other funds	97,650	-	97,650
Net increase in cash and pooled investments	92,676	20,695	113,371
Cash and pooled investments at beginning of year	-	164,956	164,956
Cash and pooled investments at end of year	<u>\$ 92,676</u>	<u>185,651</u>	<u>278,327</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 3,505	20,695	24,200
Adjustments to reconcile operating income to net cash used in operating activities:			
Increase in accounts payable	2,410	-	2,410
Decrease in prepaid expenses	(10,889)	-	(10,889)
Net cash provided by operating activities	<u>\$ (4,974)</u>	<u>20,695</u>	<u>15,721</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Revenues:										
Local sources:										
Local tax	\$ 7,009,055	6,976,570	6,546,147	6,233,495	6,012,456	7,839,881	8,003,647	7,437,632	6,974,671	7,070,071
Tuition	415,905	440,060	398,876	387,580	463,945	471,837	425,964	401,044	412,384	411,511
Other	725,406	909,436	1,111,970	889,249	928,765	917,502	838,720	1,127,701	817,801	1,105,747
State sources	14,065,571	14,327,751	13,880,960	13,459,768	13,320,846	11,805,939	11,595,516	11,277,768	9,422,841	10,973,173
Federal sources	536,833	567,322	542,424	520,024	555,610	539,245	865,647	942,998	1,563,222	700,204
Total	\$ 22,752,770	23,221,139	22,480,377	21,490,116	21,281,622	21,574,404	21,729,494	21,187,143	19,190,919	20,260,706
Expenditures:										
Instruction:										
Regular	\$ 8,219,956	8,664,481	8,271,561	8,851,692	8,013,542	7,625,345	7,569,159	7,570,307	7,723,702	7,783,173
Special	2,674,612	2,404,475	2,601,995	2,584,678	2,630,761	2,534,657	2,331,981	2,160,310	2,163,846	2,303,370
Other	2,769,822	2,877,872	2,834,515	2,996,976	2,649,923	2,572,059	2,622,649	2,473,256	2,416,091	2,331,557
Support services:										
Student	315,189	242,713	376,523	415,557	421,716	316,029	323,044	316,474	358,266	434,005
Instructional staff	885,956	914,958	400,907	607,582	345,592	357,123	327,500	1,647,901	319,171	394,561
Administration	2,479,857	2,363,119	2,306,678	2,127,248	2,035,600	1,928,285	1,886,323	2,256,071	1,934,984	2,050,703
Operation and maintenance of plant	1,678,445	1,687,634	1,758,005	1,816,579	1,876,391	1,748,813	1,635,693	1,610,774	1,655,546	1,738,269
Transportation	852,922	545,500	829,082	705,681	789,194	748,179	757,547	581,519	609,703	676,125
Capital outlay	1,264,232	4,025,326	4,121,762	834,874	1,424,851	6,053,814	1,668,885	1,075,786	548,370	617,586
Long-term debt:										
Principal	1,260,704	1,167,123	809,228	687,592	722,131	1,151,930	3,817,002	1,365,000	1,295,000	1,250,000
Interest and fiscal charges	379,222	364,222	285,577	248,148	268,525	231,505	169,736	138,822	246,516	305,731
Other expenditures:										
AEA flow-through	727,290	713,544	727,867	711,880	704,814	686,596	687,382	760,660	734,903	686,326
Total	\$ 23,508,207	25,970,967	25,323,700	22,588,487	21,883,040	25,954,335	23,796,901	21,956,880	20,006,098	20,571,406

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

GRANTOR/PROGRAM	CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 18	\$ 70,447
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 18	430,820 *
			<u>501,267</u>
TEAM NUTRITION GRANT	10.574	FY 18	<u>3,000</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 18	<u>302,145</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 18	<u>18,557</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 18	<u>52,866</u>
HEARTLAND AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 18	<u>82,994</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 18	<u>233</u>
TOTAL			<u>\$ 961,062</u>

* - Includes \$68,334 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, 2018. 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.

Indirect Cost Rate - 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.

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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 Government 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, 2018, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 17, 2019.

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 have not been identified.

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.

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, 2018 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 17, 2019
Newton, Iowa

NOLTE, CORNMAN & JOHNSON P.C.
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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, 2018. 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, 2018.

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 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 that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Knoxville Community School District's response to the internal control compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Knoxville Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 17, 2019
Newton, Iowa

KNOXVILLE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Part I: Summary of the Independent Auditor's Report

- (a) Unmodified opinions were issued on the financial statements prepared in accordance with U.S. generally accepted accounting principles.
- (b) No material weaknesses in internal control over financial reporting were 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 by the audit of the financial statements.
- (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 200.516.
- (g) Major program was as follows:
 - CFDA Number 10.553 - School Breakfast Program
 - CDFFA Number 10.555 - National School Lunch Program
 - CFDA Number 10.555 - National School Lunch Program - Noncash Commodities
- (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.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-18 Certified Budget - Expenditures for the year ended June 30, 2018 did not exceed the amended certified budgeted amounts.
- IV-B-18 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-18 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-18 Business Transactions - No business transactions between the District and District officials were noted.
- IV-E-18 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 ensure the coverage is adequate for current operations.
- IV-F-18 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-18 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- IV-H-18 Supplementary Weighting - We noted the supplementary weighting data certified to the Iowa Department of Education was understated by 0.620 for the fall 2017 count.
- Recommendation - The District should contact the Iowa Department of Education and the Iowa Department of Management to resolve this matter.
- Response - The understatement in supplementary weighting has been communicated to the Iowa Department of Education and Iowa Department of Management and will be resolved through the certified budget process.
- Conclusion - Response accepted.
- IV-I-18 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-18 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-18 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-18 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in 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, 2018, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 947,660
Revenues:		
Sales tax revenues	\$ 1,625,641	
Other local revenues	3,187	1,628,828
		<u>2,576,488</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 106,809	
Equipment	56,876	
Other	17,895	
Transfers to other funds:		
Debt service fund	1,655,219	1,836,799
		<u>1,836,799</u>
Ending balance		<u>\$ 739,689</u>

For the year ended June 30, 2018, 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-18 Negative Lunch Account Balances - It was noted during the audit that the School Nutrition Fund is carrying several significant negative student lunch account balances. It was noted some of the deficit amounts appear to be excessive in amount.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. District policies and procedures should be designed to discourage deficit accounts from becoming excessive. The District should try various collection techniques to collect the balances owed for lunches served.

Response - The District approved a new nutrition policy at the beginning of the 2017 school year in which the students are limited to a negative balance of \$40. The District is currently working with Credit Bureau of Iowa to help collect on any carryover negative lunch account balances.

Conclusion - Response accepted.

IV-N-18 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wages per hour amounts is not possible.

Recommendation - In order comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - All non-certified staff coaches are required to turn in monthly time sheets during their season in order for them to be paid for that specific month.

Conclusion - Response accepted.