

PRESTON COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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Preston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2008 Election)**

Ken Lane	President	2008
Dan Henningsen	Vice President	2009
Sally Marvin	Board Member	2010
Craig Thines	Board Member	2010
Jeff Evans	Board Member	2009

**Board of Education
(After September 2008 Election)**

Dan Henningsen	President	2009	
Sally Marvin	Vice President	2011	*
Jeff Evans	Board Member	2009	
Craig Thines	Board Member	2011	*
Steve Peterson	Board Member	2011	

School Officials

Dianne Anderson	Superintendent	2009
Linda Skoff	District Secretary/ Treasurer	2009
Vicky Schmidt	Business Manager Resigned	2009
Tina Bartels	Business Manager Hired June 30, 2009	2009
Brian Gruhn	Attorney	2009

* Board Term extended per the District's transition for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the Preston Community School District, Preston, Iowa as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Preston Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2010 on our consideration of the Preston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary.

Members American Institute & Iowa Society of Certified Public Accountants

Information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Preston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2010

BASIC FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Preston 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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,165,516 in fiscal 2008 to \$3,233,091 in fiscal 2009, while General Fund expenditures also increased from \$3,145,059 in fiscal 2008 to \$3,331,352 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$435,046 in fiscal 2008 to \$336,785 in fiscal 2009, which was a 22.59% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources. The increase in expenditures was primarily due to an increase in negotiated salaries and benefits.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Preston 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 Preston Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major funds.

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

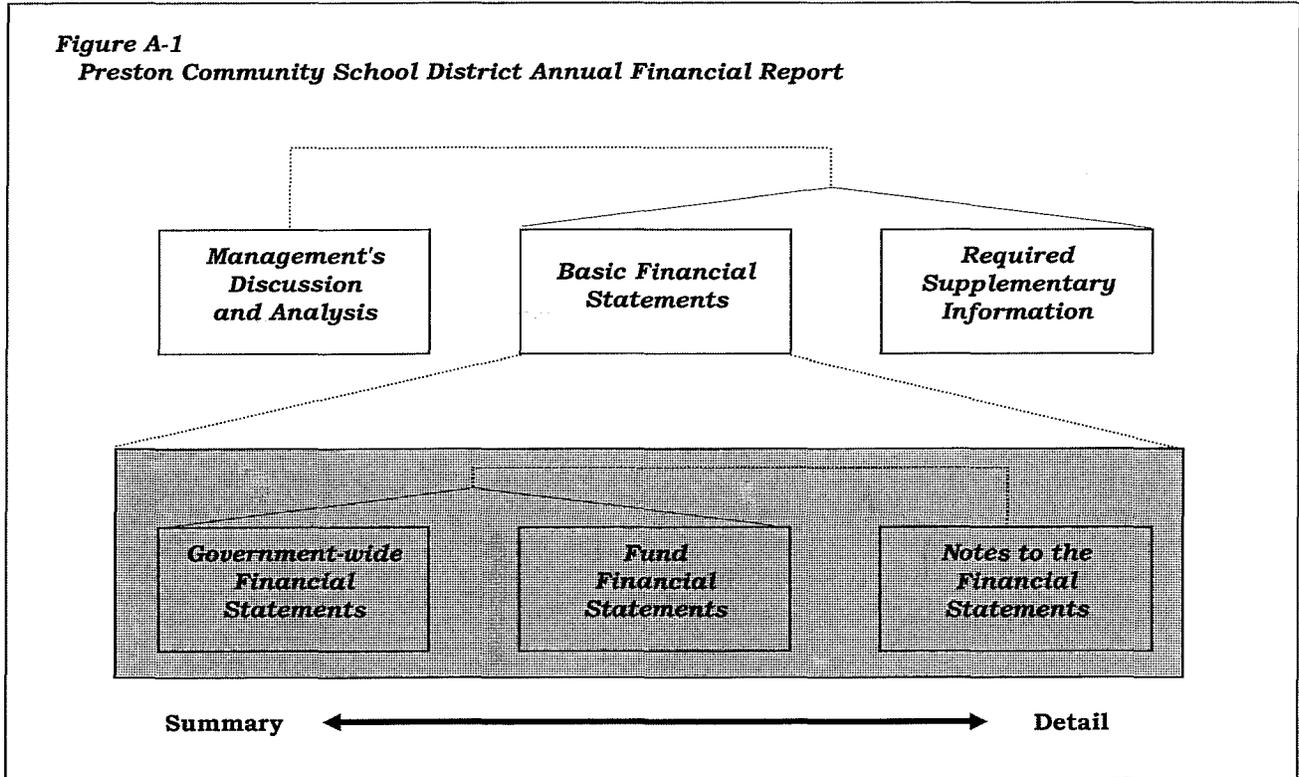


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

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 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 governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund: Self-funded Insurance.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is 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 Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 2,469,592	2,454,106	38,139	27,984	2,507,731	2,482,090	1.03%
Capital assets	1,084,745	905,776	8,969	10,310	1,093,714	916,086	19.39%
Total assets	3,554,337	3,359,882	47,108	38,294	3,601,445	3,398,176	5.98%
Long-term obligations	145,108	101,935	0	0	145,108	101,935	42.35%
Other liabilities	1,573,287	1,440,849	1,395	1,003	1,574,682	1,441,852	9.21%
Total liabilities	1,718,395	1,542,784	1,395	1,003	1,719,790	1,543,787	11.40%
Net assets:							
Invested in capital assets, net of related debt	939,637	809,171	8,969	10,310	948,606	819,481	15.76%
Restricted	566,498	580,957	0	0	566,498	580,957	-2.49%
Unrestricted	329,807	426,970	36,744	26,981	366,551	453,951	-19.25%
Total net assets	\$ 1,835,942	1,817,098	45,713	37,291	1,881,655	1,854,389	1.47%

The District's combined net assets increased by 1.47%, or \$27,266, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land,

infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$14,459 or 2.49% from the prior year.

Unrestricted net assets—are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$87,400, or 19.25% over the prior year. This was due to primarily to the increase in the General Fund balance.

Figure A-4 shows the changes in total net assets for the year ended June 30, 2009 and 2008.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 350,273	427,210	83,897	81,064	434,170	508,274	-14.58%
Operating grants and contributions and restricted interest	503,829	411,558	52,721	47,501	556,550	459,059	21.24%
Capital grants and contributions and restricted interest	0	18,050	0	0	0	18,050	-100.00%
General revenues:							
Local tax	1,170,680	1,105,011	0	0	1,170,680	1,105,011	5.94%
Statewide sales and service tax	192,997	195,172	0	0	192,997	195,172	-1.11%
Unrestricted state grants	1,366,241	1,460,662	0	0	1,366,241	1,460,662	-6.46%
Unrestricted investment earnings	16,453	36,371	429	1,519	16,882	37,890	-55.44%
Other general revenues	121,300	37,393	876	0	122,176	37,393	226.73%
Total revenues	3,721,773	3,691,427	137,923	130,084	3,859,696	3,821,511	1.00%
Program expenses:							
Governmental activities:							
Instruction	2,429,152	2,271,299	0	0	2,429,152	2,271,299	6.95%
Support services	1,107,607	1,137,044	7,672	8,791	1,115,279	1,145,835	-2.67%
Non-instructional programs	695	595	121,829	117,529	122,524	118,124	3.72%
Other expenses	165,475	152,146	0	0	165,475	152,146	8.76%
Total expenses	3,702,929	3,561,084	129,501	126,320	3,832,430	3,687,404	3.93%
Change in net assets	18,844	130,343	8,422	3,764	27,266	134,107	-79.67%
Beginning net assets	1,817,098	1,686,755	37,291	33,527	1,854,389	1,720,282	7.80%
Ending net assets	\$ 1,835,942	1,817,098	45,713	37,291	1,881,655	1,854,389	1.47%

In fiscal 2009, property tax, statewide sales and services tax and unrestricted state grants account for 73.35% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.05% of the revenue from business type activities.

The District's total revenues were \$3,859,696 of which \$3,721,733 was for governmental activities and \$137,923 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.00% increase in revenues and a 3.93% increase in expenses. The increase in expenses is related to increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

Governmental Activities

Revenues for governmental activities were \$3,721,733 and expenses were \$3,702,929.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 2,429,152	2,271,299	-6.95%	1,694,831	1,526,975	10.99%
Support services	1,107,607	1,137,044	-2.59%	1,107,607	1,137,044	-2.59%
Non-instructional programs	695	595	16.81%	695	595	16.81%
Other expenses	165,475	152,146	8.05%	45,694	39,652	15.24%
Totals	\$ 3,702,929	3,561,084	3.98%	2,848,827	2,704,266	5.35%

- A portion of the cost financed by users of the District's programs was \$350,273.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$503,829.
- The net cost portion of governmental activities was financed with \$1,170,680 in local taxes, \$192,997 in statewide sales and services tax, \$1,366,241 in unrestricted state grants, \$16,453 in unrestricted investment earnings and \$121,300 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$137,923 and expenses were \$129,501. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Preston Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As the District completed the year, its governmental funds reported combined fund balances of \$874,064 under last year's ending fund balances of \$992,068.

Governmental Fund Highlights

- The District's increase in General Fund financial position is the result of many factors. Local revenues increased by \$58,462 or 1.84% and federal revenues increased by \$28,587 or less than 1.00%. The major increase in expenditures was primarily due to increase in

regular instruction by \$174,627 or 12.11%. The increase was primarily due to negotiated contracts and benefits.

- The Special Revenue, Management Levy Fund had an increased fund balance from \$76,781 at June 30, 2008 to \$111,685 at June 30, 2009. Local revenues increased by \$23,592 or 45.14% while expenditures decreased by \$27,350 or 40.04%. The decrease was primarily due to the decrease in regular instruction expenditures.
- The Special Revenue, Physical Plant and Equipment Levy fund balance increase from \$131,869 at June 30, 2008 to \$158,386 at June 30, 2009. The increase was due to the fund receiving local revenue and no expenditures.
- The Capital Projects Fund balance decreased from \$256,529 in fiscal 2008 to \$166,457 in fiscal 2009. The decrease is attributable to decreased statewide sales and services tax collected in the fiscal year of 2009 of \$2,175 or 1.11%. Expenditures increased by \$54,976 or 22.38%. The increase in expenditures was due to an increase facilities acquisitions and the transfer of money for revenue debt relief.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$37,291 at June 30, 2008 to \$45,713 at June 30, 2009 representing an increase of 22.58% over the prior year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$149,473 less than budgeted revenues, a variance of 3.73%. The most significant variance resulted from the District receiving more in state revenues than originally anticipated.

Total expenditures were less overall than budgeted, 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. During the year ended June 30, 2009, expenditures in the other expenditures functional area exceeded the amount budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$1,093,714, 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) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$164,334.

The original cost of the District's capital assets was \$3,871,980. Governmental funds account for \$3,800,216 with the remainder of \$71,764 accounted for in the Proprietary School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvement category. The District's land improvements totaled \$182,037 at June 30, 2009, compared to \$117,586 reported at June 30, 2008. The District added a new fence and pitcher's mound to the softball field.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 11,470	11,470	0	0	11,470	11,470	0.00%
Buildings	669,818	568,417	0	0	669,818	568,417	15.14%
Land improvements	182,037	117,586	0	0	182,037	117,586	35.41%
Machinery and equipment	221,420	208,303	8,969	10,310	230,389	218,613	5.11%
Total	\$ 1,084,745	905,776	8,969	10,310	1,093,714	916,086	19.39%

Long-Term Debt

At year-end, the District had \$145,108 in other long-term debt outstanding. This represents an increase of 42.35%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
Bus lease payable	\$ 0	36,326	100.00%
Early retirement	96,885	5,330	-1717.73%
Revenue Bonds	48,223	60,279	100.00%
Totals	\$ 145,108	101,935	42.35%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of these existing circumstances that could significantly affect its financial health in the future.

- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.
- The District has experienced reduced enrollment for the last few years, cutting state aid to the District.

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 Dianne Anderson, Superintendent, Preston Community School District, P.O. Box 10, Preston, Iowa, 52069.

BASIC FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,119,630	33,973	1,153,603
Receivables:			
Property tax:			
Delinquent	25,739	0	25,739
Succeeding year	1,224,565	0	1,224,565
Accounts	84	0	84
Due from other governments	99,574	0	99,574
Inventories	0	4,166	4,166
Capital assets, net of accumulated depreciation	1,084,745	8,969	1,093,714
TOTAL ASSETS	3,554,337	47,108	3,601,445
LIABILITIES			
Accounts payable	75,713	5	75,718
Salaries and benefits payable	260,950	513	261,463
Deferred revenue:			
Succeeding year property tax	1,224,565	0	1,224,565
Other	12,059	0	12,059
Unearned revenue	0	877	877
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	32,295	0	32,295
Revenue bond payable	12,056	0	12,056
Portion due after one year:			
Early retirement payable	64,590	0	64,590
Revenue bond payable	36,167	0	36,167
TOTAL LIABILITIES	1,718,395	1,395	1,719,790
NET ASSETS			
Invested in capital assets, net of related debt	1,036,522	8,969	1,045,491
Restricted for:			
Categorical funding	28,769	0	28,769
Capital projects	166,457	0	166,457
Management levy	79,390	0	79,390
Physical plant and equipment levy	158,836	0	158,836
Other special revenue purposes	100,751	0	100,751
Unrestricted	265,217	36,744	301,961
TOTAL NET ASSETS	\$ 1,835,942	45,713	1,881,655

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, and Restricted Contributions Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,622,382	169,990	331,850	(1,120,542)	0	(1,120,542)
Special	380,903	87,298	52,198	(241,407)	0	(241,407)
Other	425,867	92,985	0	(332,882)	0	(332,882)
	<u>2,429,152</u>	<u>350,273</u>	<u>384,048</u>	<u>(1,694,831)</u>	<u>0</u>	<u>(1,694,831)</u>
Support services:						
Student	79,408	0	0	(79,408)	0	(79,408)
Instructional staff	143,386	0	0	(143,386)	0	(143,386)
Administration	415,117	0	0	(415,117)	0	(415,117)
Operation and maintenance of plant	245,663	0	0	(245,663)	0	(245,663)
Transportation	224,033	0	0	(224,033)	0	(224,033)
	<u>1,107,607</u>	<u>0</u>	<u>0</u>	<u>(1,107,607)</u>	<u>0</u>	<u>(1,107,607)</u>
Non-instructional programs	695	0	0	(695)		(695)
Other expenditures:						
Facilities acquisitions	0	0	5,000	5,000	0	5,000
Long-term debt interest	3,013	0	0	(3,013)	0	(3,013)
AEA flowthrough	114,781	0	114,781	0	0	0
Depreciation(unallocated)*	47,681	0	0	(47,681)	0	(47,681)
	<u>165,475</u>	<u>0</u>	<u>119,781</u>	<u>(45,694)</u>	<u>0</u>	<u>(45,694)</u>
Total governmental activities	3,702,929	350,273	503,829	(2,848,827)	0	(2,848,827)
Business type activities:						
Support services:						
Operation and maintenance of plant	7,672	0	0	0	(7,672)	(7,672)
	<u>7,672</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(7,672)</u>	<u>(7,672)</u>
Non-instructional programs:						
Nutrition services	121,829	83,897	52,721	0	14,789	14,789
Total business type activities	129,501	83,897	52,721	0	7,117	7,117
Total	\$ 3,832,430	434,170	556,550	(2,848,827)	7,117	(2,841,710)
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,147,332	0	1,147,332
Capital outlay				23,348	0	23,348
Statewide sales and services tax				192,997	0	192,997
Unrestricted state grants				1,366,241	0	1,366,241
Unrestricted investment earnings				16,453	429	16,882
Other general revenue				121,300	876	122,176
Total general revenues				<u>2,867,671</u>	<u>1,305</u>	<u>2,868,976</u>
Change in net assets				18,844	8,422	27,266
Net assets beginning of year				1,817,098	37,291	1,854,389
Net assets end of year				<u>\$ 1,835,942</u>	<u>45,713</u>	<u>1,881,655</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments	\$ 586,915	510,474	1,097,389
Receivables:			
Property tax:			
Delinquent	23,574	2,165	25,739
Succeeding year	1,100,364	124,201	1,224,565
Accounts	84	0	84
Due from other governments	65,191	34,383	99,574
TOTAL ASSETS	\$ 1,776,128	671,223	2,447,351
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 65,970	9,743	75,713
Salaries and benefits payable	260,950	0	260,950
Deferred revenue:			
Succeeding year property tax	1,100,364	124,201	1,224,565
Other	12,059	0	12,059
Total liabilities	1,439,343	133,944	1,573,287
Fund balances:			
Reserved for:			
Categorical funding	28,769	0	28,769
Unrestricted	308,016	537,279	845,295
Total fund balances	336,785	537,279	874,064
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,776,128	671,223	2,447,351

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances of governmental funds (page 15)	\$	874,064
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,084,745
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		22,241
Long-term liabilities, including revenue bonds and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(145,108)</u>
Net assets of governmental activities (page 13)	\$	<u><u>1,835,942</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,072,183	291,494	1,363,677
Tuition	247,371	0	247,371
Other	32,220	213,969	246,189
State sources	1,740,247	0	1,740,247
Federal sources	124,289	0	124,289
Total revenues	<u>3,216,310</u>	<u>505,463</u>	<u>3,721,773</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	1,616,074	0	1,616,074
Special	380,903	0	380,903
Other	242,529	183,338	425,867
	<u>2,239,506</u>	<u>183,338</u>	<u>2,422,844</u>
Support services:			
Student	63,869	15,371	79,240
Instructional staff	140,284	3,102	143,386
Administration	401,774	1,902	403,676
Operation and maintenance of plant	244,517	15,833	260,350
Transportation	126,621	7,889	134,510
	<u>977,065</u>	<u>44,097</u>	<u>1,021,162</u>
Non-instructional programs:			
Food service operation	0	695	695
Other expenditures:			
Facilities acquisitions	0	227,225	227,225
Long-term debt:			
Principal	0	48,382	48,382
Interest	0	4,688	4,688
AEA flowthrough	114,781	0	114,781
	<u>114,781</u>	<u>280,295</u>	<u>395,076</u>
Total expenditures	<u>3,331,352</u>	<u>508,425</u>	<u>3,839,777</u>
Deficiency of revenues and under expenses before other financing source(uses)	(115,042)	(2,962)	(118,004)
Other financing sources(uses):			
Transfers in	16,781	53,070	69,851
Transfers out	0	(69,851)	(69,851)
Total other financing sources(uses)	<u>16,781</u>	<u>(16,781)</u>	<u>0</u>
Net change in fund balances	(98,261)	(19,743)	(118,004)
Fund balance beginning of year	435,046	557,022	992,068
Fund balance end of year	<u>\$ 336,785</u>	<u>537,279</u>	<u>874,064</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2009

Net change in fund balances - total governmental funds (page 17) \$ (118,004)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense and loss on disposal of capital assets in the year are as follows:

Capital outlays	\$ 343,562	
Depreciation expense	(162,993)	
Loss on disposal of capital assets	<u>(1,600)</u>	178,969

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

48,382

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.

1,675

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

(623)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement (91,555)

Changes in net assets of governmental activities (page 14) \$ 18,844

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	Business Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
ASSETS		
Cash and pooled investments	\$ 33,973	22,241
Inventories	4,166	0
Capital assets, net of accumulated depreciation	8,969	0
TOTAL ASSETS	47,108	22,241
LIABILITIES		
Accounts payable	5	0
Salaries and benefits payable	513	0
Unearned revenue	877	0
TOTAL LIABILITIES	1,395	0
NET ASSETS		
Invested in capital assets	8,969	0
Unrestricted	36,744	22,241
TOTAL NET ASSETS	\$ 45,713	22,241

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	Business Type	
	Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 83,897	8,434
Miscellaneous revenue	876	0
TOTAL OPERATING REVENUES	<u>84,773</u>	<u>8,434</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Services	0	9,057
Operation and maintenance of plant:		
Salaries	4,416	0
Benefits	2,765	0
Services	491	0
	<u>7,672</u>	<u>0</u>
Total support services	<u>7,672</u>	<u>9,057</u>
Non-instructional programs:		
Food service operations:		
Salaries	48,185	0
Benefits	10,160	0
Services	873	0
Supplies	61,270	0
Depreciation	1,341	0
Total non-instructional programs	<u>121,829</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>129,501</u>	<u>9,057</u>
OPERATING LOSS	(44,728)	(623)
NON-OPERATING REVENUES:		
Interest on investments	429	0
State sources	1,863	0
Federal sources	50,858	0
TOTAL NON-OPERATING REVENUES	<u>53,150</u>	<u>0</u>
Change in net assets	8,422	(623)
Net assets beginning of year	<u>37,291</u>	<u>22,864</u>
Net assets end of year	<u>\$ 45,713</u>	<u>22,241</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE PERIOD ENDED JUNE 30, 2009

	Business Type	
	Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 84,292	0
Cash received from miscellaneous operating activities	876	8,434
Cash payments to employees for services	(65,534)	0
Cash payments to suppliers for goods or services	(52,412)	(9,057)
Net cash used in operating activities	(32,778)	(623)
Cash flows provided by non-capital financing activities:		
State grants received	1,863	0
Federal grants received	39,649	0
Net cash provided by non-capital financing activities	41,512	0
Cash flows from investing activities:		
Interest on investments	429	0
Net increase (decrease) in cash and cash equivalents	9,163	(623)
Cash and cash equivalents at beginning of year	24,810	22,864
Cash and cash equivalents at end of year	\$ 33,973	22,241
Reconciliation of operating loss to net cash used in in operating activities:		
Operating loss	\$ (44,728)	(623)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	11,209	0
Depreciation	1,341	0
Increase in inventories	(992)	0
Increase in accounts payable	5	0
Decrease in salaries and benefits payable	(8)	0
Increase in unearned revenue	395	0
Net cash used in operating activities	\$ (32,778)	(623)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 33,973	22,241
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		

During the year ended June 30, 2009, the District received Federal commodities valued at \$11,209.

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2009

	Private Purpose Trust	Agency
	Scholarship	
ASSETS		
Cash and pooled investments	\$ 142,706	841
LIABILITIES		
Due to other groups	0	841
NET ASSETS		
Reserved for scholarships	\$ 142,706	0

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2009

	Private Purpose Trust	Scholarship
Additions:		
Local sources:		
Donations	\$ 4,065	
Interest income	5,541	
Total additions	9,606	
Deductions:		
Instruction:		
Regular instruction:		
Scholarships awarded		7,492
Change in net assets		2,114
Net assets beginning of year		140,592
Net assets end of year	\$	142,706

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2009

(1) Summary of Significant Accounting Policies

The Preston Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Preston, Iowa, and the predominate agricultural territory in Jackson and Clinton Counties. 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, Preston 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 is 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 Preston 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 Jackson and Clinton Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's Non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund is accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District reports the following proprietary fund:

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds are as follows:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the

Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, is reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough

thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures in the other expenditures functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 were entirely covered by federal depository insurance or 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. The District had no investments at June 30, 2009.

(3) Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General Fund	Capital Projects	\$ 16,781
Debt Service	Capital Projects	53,070
		<u>\$ 69,851</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The Capital Projects Fund transferred monies to the General Fund for a prior year corrective transfer.

The Capital Projects Fund transferred monies to the Debt Service Fund for the payment of the revenue bonds.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 71,764	0	0	71,764
Less accumulated depreciation	61,454	1,341	0	62,795
Business type activities capital assets, net	<u>\$ 10,310</u>	<u>(1,341)</u>	<u>0</u>	<u>8,969</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,470	0	0	11,470
Total capital assets not being depreciated	11,470	0	0	11,470
Capital assets being depreciated:				
Buildings	1,767,985	138,788	0	1,906,773
Land improvements	197,415	74,745	0	272,160
Machinery and equipment	1,495,784	130,029	16,000	1,609,813
Total capital assets being depreciated	3,461,184	343,562	16,000	3,788,746
Less accumulated depreciation for:				
Buildings	1,199,568	37,387	0	1,236,955
Land improvements	79,829	10,294	0	90,123
Machinery and equipment	1,287,481	115,312	14,400	1,388,393
Total accumulated depreciation	2,566,878	162,993	14,400	2,715,471
Total capital assets being depreciated, net	894,306	180,569	1,600	1,073,275
Governmental activities capital assets, net	\$ 905,776	180,569	1,600	1,084,745

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 11,796
Support services:		
Student		168
Administration		12,438
Operation and maintenance of plant		2,987
Transportation		87,923
		<u>115,312</u>
Unallocated depreciation		47,681
Total governmental activities depreciation expense		<u>\$ 162,993</u>
Business type activities:		
Food services		<u>\$ 1,341</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Bus lease payable	\$ 36,326	0	36,326	0	0
Early retirement	5,330	97,293	5,738	96,885	32,295
Revenue Bond	60,279	0	12,056	48,223	12,056
Total	\$ 101,935	97,293	54,120	145,108	44,351

Revenue Bonds

Details of District's June 30, 2009 statewide sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Issued Date of August 27, 2007 Principal
2010	\$ 12,056
2011	12,056
2012	12,056
2013	12,055
Total	<u>48,223</u>

The District has pledged future statewide sales and services tax revenues to repay the \$75,239 bonds issued in August, 2008. The bonds were issued for the purpose of financing a portion of the costs of a new playground tiling project. The bonds are payable solely from the proceeds of the statewide and service tax revenues received the District and are payable through 2013. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The District is responsible for the principal only and an outside entity pays the interest. Annual principal payments on the bonds are expected to require 6.25 percent of the statewide sales and services tax revenues. The total principal remaining to be paid on the bonds is \$48,224. For the current year, principal of \$12,056 was paid on the bonds and total statewide sales and services tax revenues were \$192,997.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule. During the year ended June 30, 2009, the District paid \$5,738 in early retirement benefits. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008 and 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$129,271, \$115,216, and \$102,401 respectively, equal to the required contributions for each year.

(7) Risk Management

Preston Community School District has a self-funded dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$12,500 in insured claims for any one covered individual. 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.

Preston 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.

(8) 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 \$114,781 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Other Postemployment Benefits (OPEB)

GASB Statement Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expenses and related liabilities or assets note disclosures, and if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement Number 45 for the year ending June 30, 2010.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2009, expenditures in the other expenditures exceeded the amount budgeted.

(11) Categorical Funding

The District's ending balances for categorical funding by project as of the end of the year are as follows:

Project	Amount
Talented and gifted	\$ 21,469
Additional Teacher Contract Day	475
Beginning teacher mentoring and induction program	10
Market Factor	1,967
Educational excellence program - Phase II	335
Professional development	4,488
Market factor incentives	25
Total	<u>\$ 28,769</u>

REQUIRED SUPPLEMENTARY INFORMATION

PRESTON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,857,237	85,202	1,942,439	2,015,415	2,015,415	(72,976)
State sources	1,740,247	1,863	1,742,110	1,841,754	1,841,754	(99,644)
Federal sources	124,289	50,858	175,147	152,000	152,000	23,147
Total revenues	<u>3,721,773</u>	<u>137,923</u>	<u>3,859,696</u>	<u>4,009,169</u>	<u>4,009,169</u>	<u>(149,473)</u>
Expenditures/expenses:						
Instruction	2,422,844	0	2,422,844	2,712,122	2,712,122	289,278
Support services	1,021,162	7,672	1,028,834	1,472,819	1,472,819	443,985
Non-instructional programs	695	121,829	122,524	180,027	180,027	57,503
Other expenditures	395,076	0	395,076	391,666	391,666	(3,410)
Total expenditures/expenses	<u>3,839,777</u>	<u>129,501</u>	<u>3,969,278</u>	<u>4,756,634</u>	<u>4,756,634</u>	<u>787,356</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(118,004)	8,422	(109,582)	(747,465)	(747,465)	637,883
Other financing sources, net	0	0	0	46,000	46,000	(46,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(118,004)	8,422	(109,582)	(701,465)	(701,465)	591,883
Balance beginning of year	992,068	37,291	1,029,359	1,201,095	1,201,095	(171,736)
Balance end of year	<u>\$ 874,064</u>	<u>45,713</u>	<u>919,777</u>	<u>499,630</u>	<u>499,630</u>	<u>420,147</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2009, expenditures in the other expenditures functional area exceeded the amount budgeted

OTHER SUPPLEMENTARY INFORMATION

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Total Other Nonmajor Governmental Funds	Capital Projects	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 100,751	111,976	157,873	370,600	139,874	510,474
Receivables:						
Property tax:						
Current year delinquent	0	1,652	513	2,165	0	2,165
Succeeding year	0	100,000	24,201	124,201	0	124,201
Due from other governments	0	0	0	0	34,383	34,383
TOTAL ASSETS	\$ 100,751	213,628	182,587	496,966	174,257	671,223
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 0	1,943	0	1,943	7,800	9,743
Deferred revenue:						
Succeeding year property tax	0	100,000	24,201	124,201	0	124,201
Total Liabilities	0	101,943	24,201	126,144	7,800	133,944
Fund balances:						
Unrestricted	100,751	111,685	158,386	370,822	166,457	537,279
Total fund balances	100,751	111,685	158,386	370,822	166,457	537,279
TOTAL LIABILITIES AND FUND BALANCES	\$ 100,751	213,628	182,587	496,966	174,257	671,223

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2009

	Nonmajor Special Revenue Funds						Total
	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Total Special Revenue	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 0	75,149	23,348	98,497	192,997	0	291,494
Other	192,480	712	3,169	196,361	17,608	0	213,969
Total revenues	192,480	75,861	26,517	294,858	210,605	0	505,463
EXPENDITURES:							
Current:							
Instruction:							
Other	183,338	0	0	183,338	0	0	183,338
Support services:							
Student support	0	15,371	0	15,371	0	0	15,371
Instructional staff	0	2,105	0	2,105	997	0	3,102
Administration	234	1,668	0	1,902	0	0	1,902
Operation and maintenance of plant	0	13,229	0	13,229	2,604	0	15,833
Student transportation	0	7,889	0	7,889	0	0	7,889
Non-instructional programs							
Food service	0	695	0	695	0	0	695
Other expenditures:							
Facilities acquisitions	0	0	0	0	227,225	0	227,225
Long-term debt:							
Principal	0	0	0	0	0	48,382	48,382
Interest	0	0	0	0	0	4,688	4,688
Total expenditures	183,572	40,957	0	224,529	230,826	53,070	508,425
Excess (deficiency) of revenues over (under) expenditures before other financing sources (uses)	8,908	34,904	26,517	70,329	(20,221)	(53,070)	(2,962)
OTHER FINANCING SOURCES (USES):							
Transfers in	0	0	0	0	0	53,070	53,070
Transfers out	0	0	0	0	(69,851)	0	(69,851)
Total other financing sources (uses)	0	0	0	0	(69,851)	53,070	(16,781)
Net change in fund balances	8,908	34,904	26,517	70,329	(90,072)	0	(19,743)
Fund balance beginning of year	91,843	76,781	131,869	300,493	256,529	0	557,022
Fund balance end of year	\$ 100,751	111,685	158,386	370,822	166,457	0	537,279

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 6,938	993	0	7,931
Drama-Thespians	3,553	2,943	2,374	4,122
Dance Club	310	0	0	310
K-6 Music	200	0	0	200
Chorus-Extras	426	865	284	1,007
Instrumental Rental and Supply	924	259	190	993
Band-Extras	63	530	69	524
Performing Arts Boosters	16,058	20,211	13,939	22,330
State Tournament	0	231	231	0
Athletic	577	65,240	53,023	12,794
Athletic Wear	3,983	0	0	3,983
Boys Basketball Fundraiser	1,609	235	1,377	467
Football	0	5,575	3,903	1,672
Baseball	2,778	3,750	6,528	0
Girls Basketball Fundraiser	600	902	1,040	462
Volleyball	200	0	200	0
Softball Fundraisers	1,259	4,224	1,633	3,850
Girls golf	50	0	0	50
Cheerleaders	0	976	675	301
Athletic Boosters	22,267	45,195	56,621	10,841
SES	763	424	499	688
FCCLA	72	0	0	72
FFA	1,676	9,641	9,351	1,966
Class of 2008	1,282	0	1,282	0
Class of 2009	703	164	867	0
Class of 2010	2,658	13,068	13,873	1,853
Class of 2011	1,082	4,097	2,499	2,680
Class of 2012	0	3,287	1,889	1,398
NHS	76	240	246	70
JR. High Student Council	4,249	3,437	3,721	3,965
High School Student Council	5,592	3,263	5,174	3,681
Student Activity	11,895	2,730	2,084	12,541
Total	<u>\$ 91,843</u>	<u>192,480</u>	<u>183,572</u>	<u>100,751</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 JUNE 30, 2009

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Scholarships	Total
ASSETS					
Cash and pooled investments	\$ 127,794	11,176	3,036	700	142,706
LIABILITIES					
	0	0	0	0	0
NET ASSETS					
Reserved for scholarships	\$ 127,794	11,176	3,036	700	142,706

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 YEAR ENDED JUNE 30, 2009

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Sponsored	Total
Additions:					
Local sources:					
Donations	\$ 0	0	2,065	2,000	4,065
Interest income	5,319	219	3	0	5,541
	<u>5,319</u>	<u>219</u>	<u>2,068</u>	<u>2,000</u>	<u>9,606</u>
Deductions:					
Instruction:					
Regular instruction:					
Scholarships awarded	5,292	100	100	2,000	7,492
Changes in net assets	27	119	1,968	0	2,114
Net assets beginning of year	<u>127,767</u>	<u>11,057</u>	<u>1,068</u>	<u>700</u>	<u>140,592</u>
Net assets end of year	<u>\$ 127,794</u>	<u>11,176</u>	<u>3,036</u>	<u>700</u>	<u>142,706</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2009

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 832	9	0	841
Liabilities				
Due to other groups	\$ 832	9	0	841

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 1,363,677	1,300,183	1,276,915	1,237,526	1,183,313	1,202,409
Tuition	247,371	211,111	222,204	209,882	201,077	182,591
Other	246,189	307,913	301,911	259,010	187,061	222,361
State sources	1,740,247	1,776,518	1,602,631	1,511,383	1,539,810	1,372,062
Federal sources	124,289	95,702	97,505	100,005	111,056	126,565
Total	\$ 3,721,773	3,691,427	3,501,166	3,317,806	3,222,317	3,105,988
Expenditures:						
Current:						
Instruction:						
Regular	\$ 1,616,074	1,473,183	1,392,014	1,302,187	1,277,207	1,235,958
Special	380,903	379,121	323,972	297,481	294,413	363,127
Other	425,867	446,804	447,131	401,155	344,709	402,428
Support services:						
Student	79,240	48,156	46,427	54,147	54,137	44,691
Instructional staff	143,386	131,575	123,615	144,152	100,510	100,571
Administration	403,676	408,759	385,662	357,299	332,905	321,181
Operation and maintenance of plant	260,350	274,512	258,537	262,065	233,310	226,555
Transportation	134,510	214,124	170,798	195,529	127,610	157,365
Non-instructional programs	695	595	891	723	527	0
Other expenditures:						
Facilities acquisitions	227,225	187,346	133,952	168,518	165,560	101,894
Long-term debt:						
Principal	48,382	21,490	6,137	8,171	0	0
Interest	4,688	1,971	2,254	220	0	0
AEA flow-through	114,781	112,494	103,657	98,556	96,664	93,208
Total	\$ 3,839,777	3,700,130	3,395,047	3,290,203	3,027,552	3,046,978

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Preston Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 4, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Preston Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Preston Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Preston Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Preston Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Preston Community School District's financial statements that is more than inconsequential will not be prevented or detected by Preston Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Preston Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Preston Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

Preston Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Preston Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Preston Community School District and other parties to whom Preston Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Preston Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 4, 2010

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - This is an ongoing concern for the District with our limited staff. The District will segregate responsibilities when we have the resources to it.

Conclusion - Response accepted.

CONTROL DEFICIENCIES:

I-B-09 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - The District will train our staff on this issue and will reconcile the capital assets at the year end.

Conclusion - Response accepted.

I-C-09 Non-certified Time Sheets - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to 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 also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks. Wages received from officiating needs to be on the employee's W-2's and should be reported on the District's payroll reports.

Response - The District will be more diligent in seeing that non-certified coaches comply with the recommendation.

Conclusion - Response accepted.

I-D-09 Gate Admissions - During our audit, it was noted that the District does not utilize pre-numbered tickets for all events that requires an admission.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to the individuals involved. The Board would of course, approve any policies that the District's business office should be involved in developing the detailed procedures. At a minimum the procedures should be:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District has complied with this recommendation.

Conclusion - Response accepted.

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009 exceeded the amount budgeted in the other expenditures functional area.

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

Response - The District will review its expenditures periodically and amend the budget as necessary.

Conclusion - Response accepted.

II-B-09 Questionable Disbursements - We noted during our audit that the District wrote checks for purchase of prom gifts. Prom gifts for these purposes do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District has discontinued this practice.

Conclusion - Response accepted.

II-C-09 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.

II-D-09 Business Transactions - No business transactions between the District and District officials were noted.

II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-09 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-09 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. However, we did note that the District was not reconciling the investment accounts and had incorrect account numbers for some investments that appear to be rolled over to another investment.

Recommendation - Chapter 12B.10 of the Code of Iowa - Public Funds Investment Standards states "that the treasurer of state, state agencies authorized to invest funds, and political subdivisions of this state, when investing or depositing public funds, shall exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use to

attain the goals of this subsection.” The District should reconcile the investments on a monthly basis as part of the bank reconciliation.

Response - The District has implemented the recommendation.

Conclusion - Response accepted.

II-I-09 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.

II-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-K-09 Checks Outstanding - We noted during our audit that the District had checks included in the activity bank reconciliation which have been outstanding for over a year.

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

Response - The District will comply with this recommendation.

Conclusion - Response accepted.

II-L-09 Statewide Sales and Service Tax - During our audit, there was no instances of non-compliance noted with the use of the statewide sales and services tax revenue provisions Chapter 423F.3 of the Code of Iowa.

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 and services tax. For the year ended June 30, 2009, the District’s financial activity and other required information for the statewide sales services tax are as follows:

Beginning Balance		\$	0
Statewide sales and services tax revenue			<u>192,997</u>
Expenditures/transfers out:			
School infrastructures:			
Building	\$		139,927
Debt service for school infrastructure:			
Revenue bond debt			<u>53,070</u>
			<u>192,997</u>
Ending Balance		\$	<u>0</u>

II-M-09 Statewide Sales and Service Tax Expenditures - According to Chapter 298.3 of the Code of Iowa, Capital Projects monies may be used for a purchase of a single unit of equipment exceeding \$500 per unit. According to the District's revenue purpose statement, statewide sales and service tax money can be spent for Capital type expenditures, thus falling within the same \$500 per unit of equipment restriction. We noted tables, room dividers, and other expenditures totaling \$6,126.00. These expenditures, which are less than \$500 per single unit, are inappropriate from the Capital Projects Fund.

Recommendation - The District should make a corrective transfer of \$6,126.00 from the General Fund to the Capital Projects Fund for the unallowable cost of equipment.

Response - The District will make the necessary corrective transfer.

Conclusion - Response accepted.

II-N-09 Signing of Officiating Contracts - We noted during our audit that the Board President was not signing athletic officiating contracts for the District according to Chapter 291.1.

Recommendation - The District should have the Board President signing all contracts the District enters into, to comply with Chapter 291.1 of the Code of Iowa.

Response - The District will have the Board President sign athletic officiating contracts.

Conclusion - Response accepted.

II-O-09 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Department of Education Uniform Financial Accounting Manual states "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the co-curricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - We noted that the Activity Fund Performing Arts Boosters awarded a scholarship. Any funds raised for the scholarships should be receipted into and the expended fund from the Private Purpose Trust Funds.

Response - The District will consider the recommendation and will make the necessary changes.

Conclusion - Response accepted.