

PRESTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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Preston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 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
Board of Education (After September 2009 Election)		
Craig Thines	President	2011
Sally Marvin	Vice President	2011
Steve Paterson	Board Member	2011
Jeff Evans	Board Member	2013
Patti Hoffman	Board Member	2013
School Officials		
Dianne Anderson	Superintendent	2010
Tina Bartels	Business Manager (resigned)	2010
Adam Crigger	Business Manager (appointed)	2010
Brian Gruhn	Attorney	2010

Preston Community School District

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(A professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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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, 2010, 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, 2010, 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 29, 2011 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, Budgetary Comparison Information, and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 44 through 46 are not required parts of

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the basic financial statements, but are supplementary 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 six years ended June 30, 2009 (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 29, 2011

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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,233,091 in fiscal 2009 to \$3,248,588 in fiscal 2010, while General Fund expenditures decreased from \$3,331,352 in fiscal 2009 to \$3,208,479 in fiscal 2010. This resulted in an increase in the District's General Fund balance from \$336,785 in fiscal 2009 to \$376,894 in fiscal 2010, or an 11.91% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in federal revenues. The decrease in expenditures was primarily due to a concerted effort by the Board to increase the District's unspent balance.
- The District's solvency ratio went from 9.53% for the year ended June 30, 2009 to 9.93% for the year ended June 30, 2010. The State School Budget Review Committee recommends a solvency ratio between 5% - 10%.

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

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.

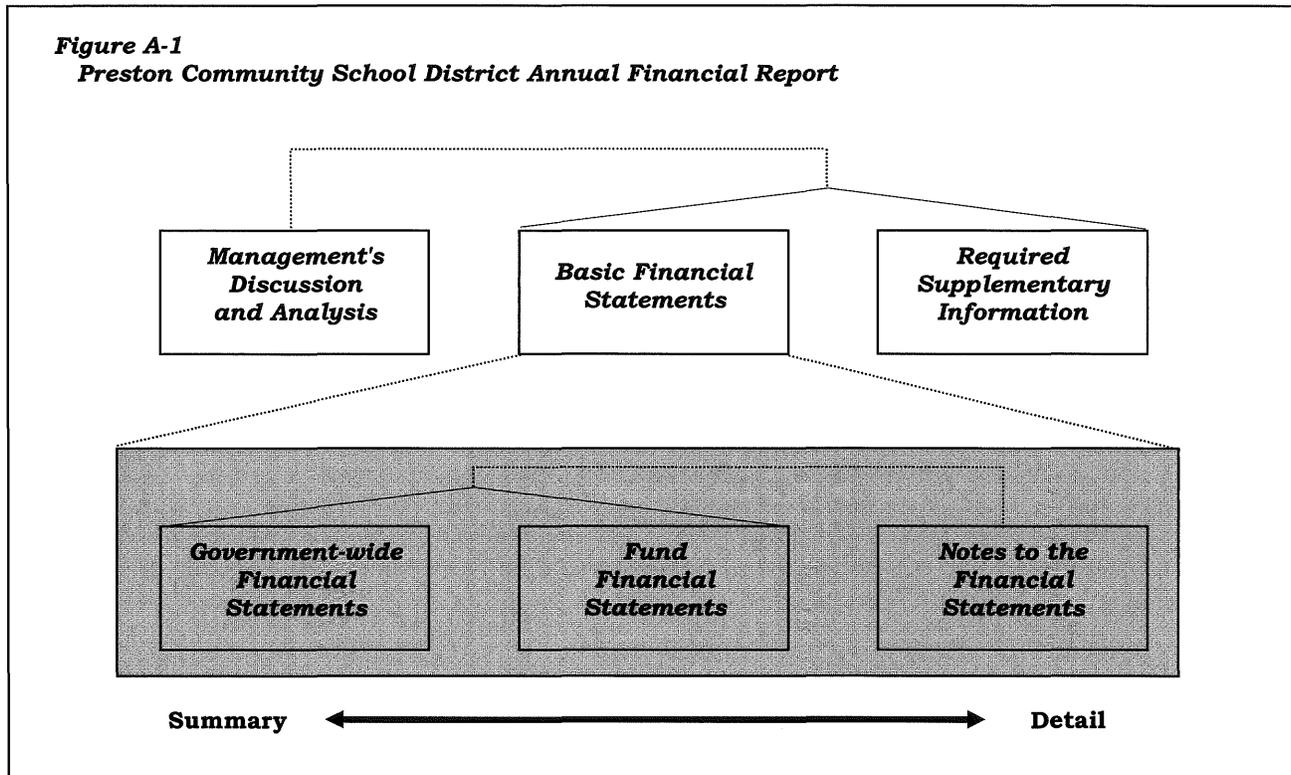


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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 Fund - These are funds through which the District administers and accounts for certain outside organizations.

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, 2010 compared to June 30, 2009.

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,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 2,544,791	2,469,592	54,154	38,139	2,598,945	2,507,731	3.64%
Capital assets	1,012,757	1,084,745	7,629	8,969	1,020,386	1,093,714	-6.70%
Total assets	3,557,548	3,554,337	61,783	47,108	3,619,331	3,601,445	0.50%
Long-term obligations	147,413	145,108	150	-	147,563	145,108	1.69%
Other liabilities	1,512,855	1,573,287	536	1,395	1,513,391	1,574,682	-3.89%
Total liabilities	1,660,268	1,718,395	686	1,395	1,660,954	1,719,790	-3.42%
Net assets:							
Invested in capital assets, net of related debt	976,590	939,637	7,629	8,969	984,219	948,606	3.75%
Restricted	598,250	566,498	-	-	598,250	566,498	5.60%
Unrestricted	322,440	329,807	53,468	36,744	375,908	366,551	2.55%
Total net assets	\$ 1,897,280	1,835,942	61,097	45,713	1,958,377	1,881,655	4.08%

The District's combined net assets increased by 4.08%, or \$76,722, over the prior year. The largest portion of the District's net assets is 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 \$31,752 or 5.60% 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 – increased \$9,357, or 2.55% over the prior year. This was due 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, 2010 compared to June 30, 2009.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 434,096	350,273	83,989	83,897	518,085	434,170	19.33%
Operating grants and contributions and restricted interest	708,995	503,829	56,892	52,721	765,887	556,550	37.61%
General revenues:							
Local tax	1,222,374	1,170,680	-	-	1,222,374	1,170,680	4.42%
Statewide sales, services and use tax	199,407	192,997	-	-	199,407	192,997	3.32%
Unrestricted state grants	1,155,334	1,366,241	-	-	1,155,334	1,366,241	-15.44%
Unrestricted investment earnings	6,053	16,453		429	6,053	16,882	-64.15%
Other general revenues	40,033	121,300	1,064	876	41,097	122,176	-66.36%
Transfers	17,180	-	-	-	17,180	-	100.00%
Total revenues	3,783,472	3,721,773	141,945	137,923	3,925,417	3,859,696	1.70%
Program expenses:							
Governmental activities:							
Instruction	2,353,923	2,429,152	-	-	2,353,923	2,429,152	-3.10%
Support services	1,129,934	1,107,607	7,892	7,672	1,137,826	1,115,279	2.02%
Non-instructional programs	-	695	118,669	121,829	118,669	122,524	-3.15%
Other expenses	238,277	165,475	-	-	238,277	165,475	44.00%
Total expenses	3,722,134	3,702,929	126,561	129,501	3,848,695	3,832,430	0.42%
Change in net assets	61,338	18,844	15,384	8,422	76,722	27,266	181.38%
Beginning net assets	1,835,942	1,817,098	45,713	37,291	1,881,655	1,854,389	1.47%
Ending net assets	\$ 1,897,280	1,835,942	61,097	45,713	1,958,377	1,881,655	4.08%

In fiscal 2010, property tax, statewide sales, services and use tax and unrestricted state grants account for 68.12% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.25% of the revenue from business type activities.

The District's total revenues were \$3,925,417 of which \$3,783,472 was for governmental activities and \$141,945 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.70% increase in revenues and a .42% increase in expenses. The increase in expenses is related to increase in other expenses functional area.

Governmental Activities

Revenues for governmental activities were \$3,783,472 and expenses were \$3,722,134.

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		
	2010	2009	Change	2010	2009	Change
			2009-10			2009-10
Instruction	\$ 2,353,923	2,429,152	3.10%	1,373,342	1,694,831	-18.97%
Support services	1,129,934	1,107,607	2.02%	1,129,934	1,107,607	2.02%
Non-instructional programs	-	695	-100.00%	-	695	-100.00%
Other expenses	238,277	165,475	30.55%	75,767	45,694	65.81%
Totals	\$ 3,722,134	3,702,929	0.52%	2,579,043	2,848,827	-9.47%

- A portion of the cost financed by users of the District's programs was \$434,096.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$708,995.
- The net cost portion of governmental activities was financed with \$1,222,374 in local taxes, \$199,407 in statewide sales, services and use tax, \$1,155,334 in unrestricted state grants, \$6,053 in unrestricted investment earnings and \$57,213 in other general revenues net of transfers.

Business type Activities

Revenues of the District's business type activities were \$141,945 and expenses were \$126,561. 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 \$1,027,422 over last year's ending fund balances of \$874,064.

Governmental Fund Highlights

The District's increase in General Fund financial position is the result of many factors. Local revenues increased by \$26,211 or 2.45% and federal revenues increased by \$161,939 or 130.30%. The major increase in expenditures was primarily due to increase in regular instruction by \$174,627 or 12.11%. The decrease was primarily due to negotiated salaries and benefits.

The Special Revenue, Management Levy Fund had an increase in fund balance from \$111,685 at June 30, 2009 to \$129,673 at June 30, 2010.

The Special Revenue, Physical Plant and Equipment Levy fund balance increased from \$158,386 at June 30, 2009 to \$184,731 at June 30, 2010.

The Capital Projects Fund balance increased from \$166,457 in fiscal 2009 to \$219,829 in fiscal 2010.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$45,713 at June 30, 2009 to \$61,097 at June 30, 2010 representing an increase of 33.65% over the prior year.

BUDGETARY HIGHLIGHTS

The District's revenues were \$126,442 less than budgeted revenues, a variance of 3.13%. The most significant variance resulted from the District receiving less 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$1,020,386, 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 5 to the financial statements. Depreciation expense for the year was \$100,617.

The original cost of the District's capital assets was \$3,899,269. Governmental funds account for \$3,827,505 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 machinery and equipment category. The District's machinery and equipment totaled \$178,233 at June 30, 2010, compared to \$230,389 reported at June 30, 2009. The decrease is due to depreciation expenses recorded for the year.

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,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 11,470	11,470	-	-	11,470	11,470	0.00%
Buildings	658,785	669,818	-	-	658,785	669,818	-1.67%
Land improvements	171,898	182,037	-	-	171,898	182,037	-5.90%
Machinery and equipment	170,604	221,420	7,629	8,969	178,233	230,389	-29.26%
Total	\$ 1,012,757	1,084,745	7,629	8,969	1,020,386	1,093,714	-6.70%

Long-Term Debt

At year-end, the District had \$147,563 in other long-term debt outstanding. This represents an increase of 1.69%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District also had outstanding Revenue Bonds payable from the Capital Projects Fund of \$36,167 at June 30, 2010.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$100,545 at June 30, 2010.

The District had a net OPEB liability of \$10,851 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,						June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Revenue bonds	\$ 36,167	48,223	-	-	36,167	48,223	-25.00%
Early retirement	100,545	96,885	-	-	100,545	96,885	3.78%
Net OPEB liability	10,701	-	150	-	10,851	-	100.00%
Total	\$ 147,413	145,108	150	-	147,563	145,108	1.69%

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 Adam Crigger, Business Manager, Preston Community School District, P.O. Box 10, Preston, Iowa, 52069.

Preston Community School District

BASIC FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,240,039	48,312	1,288,351
Receivables:			
Property tax:			
Delinquent	17,100	-	17,100
Succeeding year	1,224,565	-	1,224,565
Accounts	-	494	494
Due from other governments	63,087	-	63,087
Inventories	-	5,348	5,348
Capital assets, net of accumulated depreciation	1,012,757	7,629	1,020,386
TOTAL ASSETS	3,557,548	61,783	3,619,331
LIABILITIES			
Accounts payable	35,347	-	35,347
Salaries and benefits payable	240,884	536	241,420
Deferred revenue:			
Succeeding year property tax	1,224,565	-	1,224,565
Other	12,059	-	12,059
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	50,272	-	50,272
Revenue bond payable	12,056	-	12,056
Portion due after one year:			
Early retirement payable	50,273	-	50,273
Revenue bond payable	24,111	-	24,111
Net OPEB liability	10,701	150	10,851
TOTAL LIABILITIES	1,660,268	686	1,660,954
NET ASSETS			
Invested in capital assets, net of related debt	976,590	7,629	984,219
Restricted for:			
Categorical funding	54,295	-	54,295
Capital projects	219,829	-	219,829
Management levy	29,128	-	29,128
Physical plant and equipment levy	184,731	-	184,731
Other special revenue purposes	110,267	-	110,267
Unrestricted	322,440	53,468	375,908
TOTAL NET ASSETS	\$ 1,897,280	61,097	1,958,377

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,588,211	191,063	454,355	(942,793)	-	(942,793)
Special	365,310	70,116	54,849	(240,345)	-	(240,345)
Other	400,402	172,917	37,281	(190,204)	-	(190,204)
	<u>2,353,923</u>	<u>434,096</u>	<u>546,485</u>	<u>(1,373,342)</u>	<u>-</u>	<u>(1,373,342)</u>
Support services:						
Student	79,974	-	-	(79,974)	-	(79,974)
Instructional staff	126,078	-	-	(126,078)	-	(126,078)
Administration	504,083	-	-	(504,083)	-	(504,083)
Operation and maintenance of plant	248,117	-	-	(248,117)	-	(248,117)
Transportation	171,682	-	-	(171,682)	-	(171,682)
	<u>1,129,934</u>	<u>-</u>	<u>-</u>	<u>(1,129,934)</u>	<u>-</u>	<u>(1,129,934)</u>
Non-instructional programs						
	-	-	-	-	-	-
Other expenditures:						
Facilities acquisitions	54,481	-	30,190	(24,291)	-	(24,291)
Long-term debt interest	3,014	-	-	(3,014)	-	(3,014)
AEA flowthrough	132,320	-	132,320	-	-	-
Depreciation(unallocated)*	48,462	-	-	(48,462)	-	(48,462)
	<u>238,277</u>	<u>-</u>	<u>162,510</u>	<u>(75,767)</u>	<u>-</u>	<u>(75,767)</u>
Total governmental activities	3,722,134	434,096	708,995	(2,579,043)	-	(2,579,043)
Business type activities:						
Support services:						
Administration	121	-	-	-	(121)	(121)
Operation and maintenance of plant	7,771	-	-	-	(7,771)	(7,771)
	<u>7,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,892)</u>	<u>(7,892)</u>
Non-instructional programs:						
Nutrition services	118,669	83,989	56,892	-	22,212	22,212
Total business type activities	<u>126,561</u>	<u>83,989</u>	<u>56,892</u>	<u>-</u>	<u>14,320</u>	<u>14,320</u>
Total	\$ 3,848,695	518,085	765,887	(2,579,043)	14,320	(2,564,723)
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,198,216	-	1,198,216
Capital outlay				24,158	-	24,158
Statewide sales, services and use tax				199,407	-	199,407
Unrestricted state grants				1,155,334	-	1,155,334
Unrestricted investment earnings				6,053	-	6,053
Other general revenue				40,033	1,064	41,097
Transfers				17,180	-	17,180
Total general revenues				<u>2,640,381</u>	<u>1,064</u>	<u>2,641,445</u>
Change in net assets				61,338	15,384	76,722
Net assets beginning of year				<u>1,835,942</u>	<u>45,713</u>	<u>1,881,655</u>
Net assets end of year				<u>\$ 1,897,280</u>	<u>61,097</u>	<u>1,958,377</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, 2010

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments	\$ 652,579	582,946	1,235,525
Receivables:			
Property tax:			
Delinquent	15,366	1,734	17,100
Succeeding year	1,100,364	124,201	1,224,565
Interfund	-	5,120	5,120
Due from other governments	-	63,087	63,087
TOTAL ASSETS	\$ 1,768,309	777,088	2,545,397
LIABILITIES AND FUND BALANCES			
Liabilities:			
Interfund payable	\$ 5,120	-	5,120
Accounts payable	32,988	2,359	35,347
Salaries and benefits payable	240,884	-	240,884
Deferred revenue:			
Succeeding year property tax	1,100,364	124,201	1,224,565
Other	12,059	-	12,059
Total liabilities	1,391,415	126,560	1,517,975
Fund balances:			
Reserved for:			
Categorical funding	54,295	-	54,295
Unrestricted	322,599	650,528	973,127
Total fund balances	376,894	650,528	1,027,422
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,768,309	777,088	2,545,397

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20)	\$	1,027,422
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,012,757
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Blending of the Internal Service Funds to be reflected on an entity-wide basis.		4,514
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Long-term liabilities, including revenue bonds, early retirement and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.		(147,413)
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Net assets of governmental activities (page 18)	\$	<u><u>1,897,280</u></u>
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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	\$ 1,098,394	323,386	1,421,780
Tuition	248,612	-	248,612
Other	50,263	186,498	236,761
State sources	1,547,911	25,000	1,572,911
Federal sources	286,228	-	286,228
Total revenues	<u>3,231,408</u>	<u>534,884</u>	<u>3,766,292</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	1,518,453	32,295	1,550,748
Special	358,900	3,628	362,528
Other	235,359	162,261	397,620
	<u>2,112,712</u>	<u>198,184</u>	<u>2,310,896</u>
Support services:			
Student	76,749	-	76,749
Instructional staff	121,368	1,623	122,991
Administration	405,588	83,996	489,584
Operation and maintenance of plant	228,225	15,363	243,588
Transportation	131,517	6,159	137,676
	<u>963,447</u>	<u>107,141</u>	<u>1,070,588</u>
Other expenditures:			
Facilities acquisitions	-	101,240	101,240
Long-term debt:			
Principal	-	12,056	12,056
Interest	-	3,014	3,014
AEA flowthrough	132,320	-	132,320
	<u>132,320</u>	<u>116,310</u>	<u>248,630</u>
Total expenditures	<u>3,208,479</u>	<u>421,635</u>	<u>3,630,114</u>
Excess of revenues over expenses before other financing source(uses)	22,929	113,249	136,178
Other financing sources(uses):			
Transfers in	17,180	15,070	32,250
Transfers out	-	(15,070)	(15,070)
Total other financing sources(uses)	<u>17,180</u>	<u>-</u>	<u>17,180</u>
Net change in fund balances	40,109	113,249	153,358
Fund balance beginning of year	336,785	537,279	874,064
Fund balance end of year	<u>\$ 376,894</u>	<u>650,528</u>	<u>1,027,422</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
 YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22)	\$	153,358
 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	\$ 27,289	
Depreciation expense	<u>(99,277)</u>	(71,988)
 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.		
		12,056
 Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		
		(17,727)
 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	(3,660)	
Other postemployment benefits	<u>(10,701)</u>	<u>(14,361)</u>
 Changes in net assets of governmental activities (page 19)	 \$	 <u><u>61,338</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	Business Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service
ASSETS		
Cash and pooled investments	\$ 48,312	4,514
Accounts receivable	494	-
Inventories	5,348	-
Capital assets, net of accumulated depreciation	7,629	-
TOTAL ASSETS	61,783	4,514
LIABILITIES		
Salaries and benefits payable	536	-
Net OPEB liability	150	-
TOTAL LIABILITIES	686	-
NET ASSETS		
Invested in capital assets	7,629	-
Unrestricted	53,468	4,514
TOTAL NET ASSETS	\$ 61,097	4,514

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, 2010

	Business Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 83,989	3,227
Miscellaneous revenue	1,064	-
TOTAL OPERATING REVENUES	85,053	3,227
OPERATING EXPENSES:		
Support services:		
Administration:		
Salaries	106	-
Benefits	15	-
Services	-	3,774
	121	3,774
Operation and maintenance of plant:		
Salaries	4,268	-
Benefits	2,009	-
Services	1,494	-
	7,771	-
Total support services	7,892	3,774
Non-instructional programs:		
Food service operations:		
Salaries	43,722	-
Benefits	11,345	-
Services	47	-
Supplies	62,215	-
Depreciation	1,340	-
Total non-instructional programs	118,669	-
TOTAL OPERATING EXPENSES	126,561	3,774
OPERATING LOSS	(41,508)	(547)
NON-OPERATING REVENUES:		
State sources	1,690	-
Federal sources	55,202	-
TOTAL NON-OPERATING REVENUES	56,892	-
Change in net assets before other financing uses	15,384	(547)
Other financing uses:		
Transfers out	-	(17,180)
Change in net assets	15,384	(17,727)
Net assets beginning of year	45,713	22,241
Net assets end of year	\$ 61,097	4,514

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE PERIOD ENDED JUNE 30, 2010

	Business Type	
	Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 82,618	-
Cash received from miscellaneous operating activities	1,064	3,227
Cash payments to employees for services	(61,292)	-
Cash payments to suppliers for goods or services	(51,798)	(3,774)
Net cash used in operating activities	(29,408)	(547)
Cash flows provided by non-capital financing activities:		
Transfer to General Fund	-	(17,180)
State grants received	1,690	-
Federal grants received	42,057	-
Net cash provided by non-capital financing activities	43,747	(17,180)
Cash flows from investing activities:		
Interest on investments	-	-
Net increase (decrease) in cash and cash equivalents	14,339	(17,727)
Cash and cash equivalents at beginning of year	33,973	22,241
Cash and cash equivalents at end of year	\$ 48,312	4,514
Reconciliation of operating loss to net cash used in in operating activities:		
Operating loss	\$ (41,508)	(547)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:		
Commodities consumed	13,145	-
Depreciation	13,140	-
Increase in inventories	(1,182)	-
Increase in accounts receivable	(494)	-
Decrease in accounts payable	(5)	-
Increase in salaries and benefits payable	23	-
Decrease in unearned revenue	(877)	-
Increase in OPEB liability	150	-
Net cash used in operating activities	\$ (17,608)	(547)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$13,145.

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2010

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 143,836	844
LIABILITIES		
Due to other groups	-	844
NET ASSETS		
Reserved for scholarships	\$ 143,836	-

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Donations	\$ 1,765
Interest income	4,693
Total additions	<u>6,458</u>
Deductions:	
Instruction:	
Regular instruction:	
Scholarships awarded	<u>5,328</u>
Change in net assets	1,130
Net assets beginning of year	<u>142,706</u>
Net assets end of year	<u>\$ 143,836</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

(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. 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more
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, 2010, expenditures in the other expenditures functional area exceeded the amounts budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. At June 30, 2010, the District had no investments.

(3) Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General Fund	Internal Service	\$ 17,180
Debt Service	Capital Projects	<u>15,070</u>
		<u>\$ 32,250</u>

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

The Internal Service Fund transferred monies to the General Fund for expenses that were paid from the General Fund.

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

(4) Due From and Due to Other Funds

Receivable Fund	Payable Fund	Amount
Special Revenue, Student Activity	General Fund	<u>\$ 5,120</u>

The General Fund is repaying the Special Revenue, Student Activity for a CD that was incorrectly deposited into the General Fund. The balance will be repaid by June 30, 2011.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,470	-	-	11,470
Total capital assets not being depreciated	<u>11,470</u>	<u>-</u>	<u>-</u>	<u>11,470</u>
Capital assets being depreciated:				
Buildings	1,906,773	27,289	-	1,934,062
Land improvements	272,160	-	-	272,160
Machinery and equipment	1,609,813	-	-	1,609,813
Total capital assets being depreciated	<u>3,788,746</u>	<u>27,289</u>	<u>-</u>	<u>3,816,035</u>
Less accumulated depreciation for:				
Buildings	1,236,955	38,322	-	1,275,277
Land improvements	90,123	10,139	-	100,262
Machinery and equipment	1,388,393	50,816	-	1,439,209
Total accumulated depreciation	<u>2,715,471</u>	<u>99,277</u>	<u>-</u>	<u>2,814,748</u>
Total capital assets being depreciated, net	<u>1,073,275</u>	<u>(71,988)</u>	<u>-</u>	<u>1,001,287</u>
Governmental activities capital assets, net	<u>\$ 1,084,745</u>	<u>(71,988)</u>	<u>-</u>	<u>1,012,757</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 71,764	-	-	71,764
Less accumulated depreciation	62,795	1,340	-	64,135
Business type activities capital assets, net	<u>\$ 8,969</u>	<u>(1,340)</u>	<u>-</u>	<u>7,629</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 5,686
Support services:		
Student		168
Administration		10,096
Operation and maintenance of plant		949
Transportation		33,916
		<u>50,815</u>
Unallocated depreciation		<u>48,462</u>
Total governmental activities depreciation expense		<u>\$ 99,277</u>
Business type activities:		
Food services		<u>\$ 1,340</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early retirement	96,885	35,955	32,295	100,545	50,272
Revenue Bond	48,223	-	12,056	36,167	12,056
OPEB liability	-	10,701	-	10,701	-
Total	\$ 145,108	46,656	44,351	147,413	62,328

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities: Net OPEB liability	\$ -	150	-	150	-

Revenue Bonds

Details of District's June 30, 2010 statewide sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Issued Date of August 27, 2007 Principal
2011	\$ 12,056
2012	12,056
2013	12,055
Total	\$ 36,167

The District has pledged future statewide sales and services tax revenues to repay the \$75,239 bonds issued in August, 2007. 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 \$36,167. For the current year, principal of \$12,056 was paid on the bonds and total statewide sales and services tax revenues were \$199,407.

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, 2010, the District paid \$32,295 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.

(7) 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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$126,679, \$129,271, and \$115,216 respectively, equal to the required contributions for each year.

(8) 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.

(9) 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 \$132,320 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 36 active and 6 retired members in the plan. Participants must be age 55 or older at retirement. Employees must be at least age 55 with 20 or more years of service to be eligible for the District's cash benefit.

The District pays a cash benefit based on 50% of the retiree's final salary. The cash benefit is shown as an explicit subsidy and an OPEB liability.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 16,447
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>16,447</u>
Contributions made	<u>(5,596)</u>
Increase in net OPEB obligation	10,851
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ 10,851</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$5,596 to the medical and explicit plans. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 16,447	34.02%	\$ 10,851

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$160,019, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$160,019. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,668,919, and the ratio of the UAAL to covered payroll was 9.6%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are for the \$344 per month for retirees who have attained age 60. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(11) Categorical Funding

The District's ending balances for categorical funding by project as of the year ended June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Talented and gifted	\$ 22,306
Teacher salary supplement	16,294
Beginning teacher mentoring	1,300
Market Factor	1,967
Core curriculum	5,257
Professional development	7,146
Market factor incentives	25
	<hr/>
Total	\$ 54,295

Preston Community School District

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, 2010

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 1,907,153	85,053	1,992,206	2,062,229	2,062,229	(70,023)
State sources	1,572,911	1,690	1,574,601	1,878,450	1,878,450	(303,849)
Federal sources	286,228	55,202	341,430	94,000	94,000	247,430
Total revenues	<u>3,766,292</u>	<u>141,945</u>	<u>3,908,237</u>	<u>4,034,679</u>	<u>4,034,679</u>	<u>(126,442)</u>
Expenditures/expenses:						
Instruction	2,310,896	-	2,310,896	2,726,270	2,726,270	415,374
Support services	1,070,588	7,892	1,078,480	1,324,372	1,324,372	245,892
Non-instructional programs	-	118,669	118,669	187,191	187,191	68,522
Other expenditures	248,630	-	248,630	588,983	588,983	340,353
Total expenditures/expenses	<u>3,630,114</u>	<u>126,561</u>	<u>3,756,675</u>	<u>4,826,816</u>	<u>4,826,816</u>	<u>1,070,141</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	136,178	15,384	151,562	(792,137)	(792,137)	943,699
Other financing sources, net	<u>17,180</u>	<u>-</u>	<u>17,180</u>	<u>-</u>	<u>-</u>	<u>17,180</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	153,358	15,384	168,742	(792,137)	(792,137)	960,879
Balance beginning of year	<u>874,064</u>	<u>45,713</u>	<u>919,777</u>	<u>1,002,146</u>	<u>1,002,146</u>	<u>(82,369)</u>
Balance end of year	<u>\$ 1,027,422</u>	<u>61,097</u>	<u>1,088,519</u>	<u>210,009</u>	<u>210,009</u>	<u>878,510</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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.

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 160,019	\$ 160,019	0.0%	\$ 1,668,919	9.6%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Nonmajor Special Revenue Funds						Total Nonmajor Governmental Funds
	Student Activity	Management Levy	Physical Plant and Equipment Levy	Total	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 107,506	128,277	184,393	420,176	156,742	6,028	582,946
Receivables:							
Property tax:							
Delinquent	-	1,396	338	1,734	-	-	1,734
Succeeding year	-	100,000	24,201	124,201	-	-	124,201
Interfund	5,120	-	-	5,120	-	-	5,120
Due from other governments	-	-	-	-	63,087	-	63,087
TOTAL ASSETS	\$ 112,626	229,673	208,932	551,231	219,829	6,028	777,088
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 2,359	-	-	2,359	-	-	2,359
Deferred revenue:							
Succeeding year property tax	-	100,000	24,201	124,201	-	-	124,201
Total Liabilities	2,359	100,000	24,201	126,560	-	-	126,560
Fund balances:							
Unrestricted	110,267	129,673	184,731	424,671	219,829	6,028	650,528
Total fund balances	110,267	129,673	184,731	424,671	219,829	6,028	650,528
TOTAL LIABILITIES AND FUND BALANCES	\$ 112,626	229,673	208,932	551,231	219,829	6,028	777,088

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, 2010

	Nonmajor Special Revenue Funds						Total
	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Total	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ -	99,821	24,158	123,979	199,407	-	323,386
Other	171,777	899	2,187	174,863	5,607	6,028	186,498
State sources	-	-	25,000	25,000	-	-	25,000
Total revenues	171,777	100,720	51,345	323,842	205,014	6,028	534,884
EXPENDITURES:							
Current:							
Instruction:							
Regular	-	32,295	-	32,295	-	-	32,295
Special	-	3,628	-	3,628	-	-	3,628
Other	162,261	-	-	162,261	-	-	162,261
Support services:							
Instructional staff	-	1,623	-	1,623	-	-	1,623
Administration	-	37,022	-	37,022	46,974	-	83,996
Operation and maintenance of plant	-	2,005	-	2,005	13,358	-	15,363
Student transportation	-	6,159	-	6,159	-	-	6,159
Other expenditures:							
Facilities acquisitions	-	-	25,000	25,000	76,240	-	101,240
Long-term debt:							
Principal	-	-	-	-	-	12,056	12,056
Interest	-	-	-	-	-	3,014	3,014
Total expenditures	162,261	82,732	25,000	269,993	136,572	15,070	421,635
Excess(deficiency) of revenues over(under) expenditures before other financing sources(uses)	9,516	17,988	26,345	53,849	68,442	(9,042)	113,249
OTHER FINANCING SOURCES(USES):							
Transfers in	-	-	-	-	-	15,070	15,070
Transfers out	-	-	-	-	(15,070)	-	(15,070)
Total other financing sources(uses)	-	-	-	-	(15,070)	15,070	-
Net change in fund balances	9,516	17,988	26,345	53,849	53,372	6,028	113,249
Fund balance beginning of year	100,751	111,685	158,386	370,822	166,457	-	537,279
Fund balance end of year	\$ 110,267	129,673	184,731	424,671	219,829	6,028	650,528

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 7,931	2,447	1,898	8,480
Drama-Thespians	4,122	3,870	3,257	4,735
Dance Club	310	-	-	310
K-6 Music	200	-	-	200
Chorus-Extras	1,007	260	670	597
Instrumental Rental and Supply	993	120	203	910
Band-Extras	524	401	708	217
Performing Arts Boosters	22,330	21,244	13,302	30,272
State Tournament	-	275	1,722	(1,447)
Athletic	12,794	49,964	50,412	12,346
Athletic Wear	3,983	-	-	3,983
Boys Basketball Fundraiser	467	886	686	667
Football	1,672	1,550	1,085	2,137
Baseball	-	1,961	1,507	454
Girls Basketball Fundraiser	462	390	560	292
Volleyball	-	3,999	1,953	2,046
Softball Fundraisers	3,850	3,308	3,707	3,451
Girls golf	50	-	-	50
Cheerleaders	301	1,648	1,845	104
Athletic Boosters	10,841	37,656	34,529	13,968
SES	688	563	1,250	1
FCCLA	72	-	-	72
FFA	1,966	15,392	11,748	5,610
Class of 2009	-	-	100	(100)
Class of 2010	1,853	28	1,125	756
Class of 2011	2,680	11,711	12,982	1,409
Class of 2012	1,398	2,283	1,289	2,392
NHS	70	492	486	76
JR. High Student Council	3,965	3,901	4,112	3,754
High School Student Council	3,681	4,482	5,469	2,694
Student Activity	12,541	2,946	5,656	9,831
Total	<u>\$ 100,751</u>	<u>171,777</u>	<u>162,261</u>	<u>110,267</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Scholarships	Total
ASSETS					
Cash and pooled investments	\$ 128,546	11,266	3,524	500	143,836
LIABILITIES					
	-	-	-	-	-
NET ASSETS					
Reserved for scholarships	\$ 128,546	11,266	3,524	500	143,836

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, 2010

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Sponsored	Total
Additions:					
Local sources:					
Donations	\$ -	-	765	1,000	1,765
Interest income	4,480	190	23	-	4,693
	<u>4,480</u>	<u>190</u>	<u>788</u>	<u>1,000</u>	<u>6,458</u>
Deductions:					
Instruction:					
Regular instruction:					
Scholarships awarded	3,728	100	300	1,200	5,328
Changes in net assets	752	90	488	(200)	1,130
Net assets beginning of year	<u>127,794</u>	<u>11,176</u>	<u>3,036</u>	<u>700</u>	<u>142,706</u>
Net assets end of year	<u>\$ 128,546</u>	<u>11,266</u>	<u>3,524</u>	<u>500</u>	<u>143,836</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, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 841	3	-	844
Liabilities				
Due to other groups	\$ 841	3	-	844

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 SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 1,421,780	1,363,677	1,300,183	1,276,915	1,237,526	1,183,313	1,202,409
Tuition	248,612	247,371	211,111	222,204	209,882	201,077	182,591
Other	236,761	246,189	307,913	301,911	259,010	187,061	222,361
State sources	1,572,911	1,740,247	1,776,518	1,602,631	1,511,383	1,539,810	1,372,062
Federal sources	286,228	124,289	95,702	97,505	100,005	111,056	126,565
Total	\$ 3,766,292	3,721,773	3,691,427	3,501,166	3,317,806	3,222,317	3,105,988
Expenditures:							
Current:							
Instruction:							
Regular	\$ 1,550,748	1,616,074	1,473,183	1,392,014	1,302,187	1,277,207	1,235,958
Special	362,528	380,903	379,121	323,972	297,481	294,413	363,127
Other	397,620	425,867	446,804	447,131	401,155	344,709	402,428
Support services:							
Student	76,749	79,240	48,156	46,427	54,147	54,137	44,691
Instructional staff	122,991	143,386	131,575	123,615	144,152	100,510	100,571
Administration	489,584	403,676	408,759	385,662	357,299	332,905	321,181
Operation and maintenance of plant	243,588	260,350	274,512	258,537	262,065	233,310	226,555
Transportation	137,676	134,510	214,124	170,798	195,529	127,610	157,365
Non-instructional programs	-	695	595	891	723	527	-
Other expenditures:							
Facilities acquisitions	101,240	227,225	187,346	133,952	168,518	165,560	101,894
Long-term debt:							
Principal	12,056	48,382	21,490	6,137	8,171	-	-
Interest	3,014	4,688	1,971	2,254	220	-	-
AEA flow-through	132,320	114,781	112,494	103,657	98,556	96,664	93,208
Total	\$ 3,630,114	3,839,777	3,700,130	3,395,047	3,290,203	3,027,552	3,046,978

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of 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, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 29, 2011. 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.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items I-A-10 and I-B-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned costs as items I-C-10 through I-D-10 to be significant deficiencies.

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, 2010 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 29, 2011

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 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.

I-B-10 Bank Reconciliations - We noted during our audit that bank reconciliations were not completed timely. The bank reconciliations serve as a control to help ensure deposits and receipts recorded reconcile. Also, bank reconciliations are essential in determining the financial position of each fund.

Recommendation - The District should review its procedures to ensure that bank reconciliations are done timely.

Response - The District will complete bank reconciliations timely.

Conclusion - Response accepted.

I-C-10 Sponsors Activity Account Statements- We noted during our audit that the District is not giving sponsors a monthly statement of their account. They only get a statement if it is requested.

Recommendation - Sponsors should be given a statement of their account each month. Sponsors should review the account and verify its accuracy.

Response - The District will give all sponsors monthly statements of their account.

Conclusion - Response accepted.

I-D-10 Gate Admissions - During our audit, it was noted that the District does not utilize two ticket takers at events requiring admission. We also noted that the ticket taker does not perform the reconciliation of the cash to tickets sold. This is done by the High School Secretary or Athletic Director.

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 will review its procedures

Conclusion - Response accepted.

OTHER MATTERS:

I-E-10 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund earned interest. However, this interest was not allocated out the various accounts at year end.

Recommendation- Interest in the Student Activity Fund should be allocated among the various accounts by the end of the year.

Response - Interest in the student activity fund will be allocated prior to fiscal year end.

Conclusion - Response accepted.

I-F-10 Intangible Asset Policy - Although the District implemented Governmental Accounting Standards Board Statement No. 51 with regard to intangible assets, the District does not have a policy addressing capitalization of intangible assets.

Recommendation - The District's Board of Directors should adopt an intangible asset policy addressing the capitalization of intangible assets.

Response - The board will adopt an intangible asset policy addressing the capitalization of intangible assets as soon as normal protocol permits.

Conclusion - Response accepted.

PRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget - District expenditures for the year ended June 30, 2010 , did not exceed the amount budgeted.
- II-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 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-10 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-10 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-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-10 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.
- II-J-10 Certified Annual Report - The Certified Annual Report was not filed timely with the Department of Education, and we noted no significant deficiencies in the amounts reported.
- Recommendation - The District should file the Certified Annual Report timely in the future.
- Response - The District will file the Certified Annual Report timely in the future.
- Conclusion - Response accepted.
- II-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-10 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 research these checks to determine if they need to be reissued, voided or submitted to the State Treasurer as unclaimed property.

Conclusion - Response accepted.

II-M-10 Statewide Sales, Services and Use Tax - We noted during our audit that the District purchased laptops and computer software totaling \$30,760.02. These expenditures do not meet the requirements of appropriate equipment under Chapter 423F.3 of the Code of Iowa.

Recommendation- The District should consult legal counsel with regard to these expenditures as they do not meet the requirements under Chapter 423F.3 of the Code of Iowa. We request that the District transfer \$30,760.02 for the General Fund to Capital Projects.

Response - The District will make the necessary corrective transfer.

Conclusion - Response accepted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	-
Statewide sales and services tax revenue			199,407
Expenditures/transfers out:			
School infrastructures:			
Building	\$	51,498	
Equipment		60,332	
Other improvements		24,742	
Debt service for school infrastructure:			
Revenue bond debt		15,070	151,642
			<u>151,642</u>
Ending Balance		\$	<u>47,765</u>

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010 the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical Plant and Equipment Levy	\$ 1.34000	\$ 98,271

II-N-10 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-10 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 in the Activity , National Honor Society, Student Council and SES awarded scholarship. Any funds raised for the scholarships should be receipted into and expended fund from the Private Purpose Trust Funds.

We also noted that the Instrumental Rental and Supply and Band accounts appear to be more instructional in nature consisting of rent for instruments and band resale items and therefore should be run through the General Fund rather than the Student Activity Fund.

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

Conclusion - Response acknowledged.