

PRESTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Preston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Craig Thines	President	2011
Sally Marvin	Vice President	2011
Steve Peterson	Board Member	2011
Jeff Evans	Board Member	2013
Patti Hoffman	Board Member	2013
<b>School Officials</b>		
Robert Lagerblade	Superintendent	2011
Adam Crigger	Business Manager	2011
Linda Skoff	Board Secretary	2011
Brian Gruhn	Attorney	2011

Preston Community School District

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

**Certified Public Accountants**

**(A professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the Preston Community School District, Preston, Iowa as of and for the year ended June 30, 2011, 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, 2011, 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 23, 2012 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 seven years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 9, 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 23, 2012

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

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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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,248,588 in fiscal 2010 to \$3,510,694 in fiscal 2011, while General Fund expenditures decreased from \$3,208,479 in fiscal 2010 to \$3,170,328 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$376,894 at June 30, 2010 to \$717,260 at June 30, 2011, a 90.31% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state 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 increased as compared to fiscal 2010. At June 30, 2011 the District's solvency ratio was 18.76% as compared to 9.93% at June 30, 2010.
- The district's unspent balance increased from \$131,090 to \$340,370.

### **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.

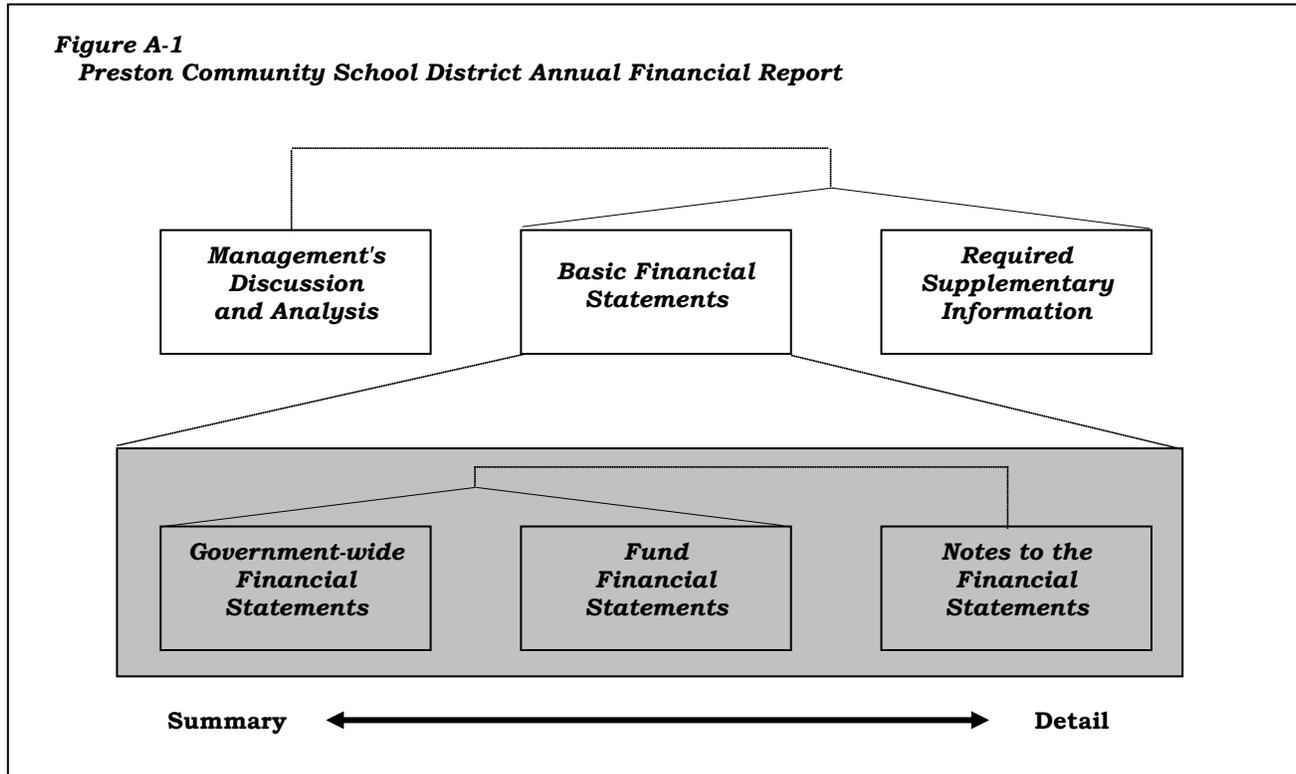


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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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, 2011 compared to June 30, 2010.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 3,018,553	2,544,791	54,481	54,154	3,073,034	2,598,945	18.24%
Capital assets	936,336	1,012,757	6,902	7,629	943,238	1,020,386	-7.56%
Total assets	3,954,889	3,557,548	61,383	61,783	4,016,272	3,619,331	10.97%
Long-term obligations	96,690	147,413	313	150	97,003	147,563	-34.26%
Other liabilities	1,488,481	1,512,855	1,978	536	1,490,459	1,513,391	-1.52%
Total liabilities	1,585,171	1,660,268	2,291	686	1,587,462	1,660,954	-4.42%
Net assets:							
Invested in capital assets, net of related debt	912,225	976,590	6,902	7,629	919,127	984,219	-6.61%
Restricted	816,758	598,250	-	-	816,758	598,250	36.52%
Unrestricted	640,735	322,440	52,190	53,468	692,925	375,908	84.33%
Total net assets	\$ 2,369,718	1,897,280	59,092	61,097	2,428,810	1,958,377	24.02%

The District's combined net assets increased by 24.02%, or \$470,433, 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

increased \$218,508 or 36.52% from the prior year. This increase was primarily a result of the increase in the Capital Projects Fund balance.

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 \$317,017, or 84.33% 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, 2011 compared to June 30, 2010.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Revenues: and Transfers							
Program revenues:							
Charges for services	\$ 347,771	434,096	74,711	83,989	422,482	518,085	-18.45%
Operating grants and contributions and restricted interest	341,967	708,995	55,308	56,892	397,275	765,887	-48.13%
General revenues:							
Local tax	1,255,493	1,222,374	-	-	1,255,493	1,222,374	2.71%
Statewide sales, services and use tax	229,515	199,407	-	-	229,515	199,407	15.10%
Unrestricted state grants	1,597,398	1,155,334	-	-	1,597,398	1,155,334	38.26%
Nonspecific program federal grants	99,872	-	-	-	99,872	-	100.00%
Unrestricted investment earnings	3,749	6,053	17	-	3,766	6,053	-37.78%
Other general revenues	154,894	40,033	591	1,064	155,485	41,097	278.34%
Transfers	-	17,180	-	-	-	17,180	-100.00%
Total revenues and transfers	4,030,659	3,783,472	130,627	141,945	4,161,286	3,925,417	6.01%
Program expenses:							
Governmental activities:							
Instruction	2,353,534	2,353,923	4,773	-	2,358,307	2,353,923	0.19%
Support services	1,023,186	1,129,934	19,357	7,892	1,042,543	1,137,826	-8.37%
Non-instructional programs	-	-	108,502	118,669	108,502	118,669	-8.57%
Other expenses	181,501	238,277	-	-	181,501	238,277	-23.83%
Total expenses	3,558,221	3,722,134	132,632	126,561	3,690,853	3,848,695	-4.10%
Change in net assets	472,438	61,338	(2,005)	15,384	470,433	76,722	513.17%
Beginning net assets	1,897,280	1,835,942	61,097	45,713	1,958,377	1,881,655	4.08%
Ending net assets	\$ 2,369,718	1,897,280	59,092	61,097	2,428,810	1,958,377	24.02%

In fiscal 2011, local tax, statewide sales, services and use tax and unrestricted state grants account for 76.47% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.53% of the revenue from business type activities.

The District's total revenues were \$4,161,286 of which \$4,030,659 was for governmental activities and \$130,627 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.01% increase in revenues and a 4.10% decrease in expenses. The decrease in expenses is related to a decrease in the other expenses functional area.

## Governmental Activities

Revenues for governmental activities were \$4,030,659 and expenses were \$3,558,221.

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		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 2,353,534	2,353,923	0.02%	1,803,720	1,373,342	31.34%
Support services	1,023,186	1,129,934	-9.45%	1,016,301	1,129,934	-10.06%
Other expenses	181,501	238,277	-31.28%	48,462	75,767	-36.04%
Totals	\$ 3,558,221	3,722,134	-4.40%	2,868,483	2,579,043	11.22%

- A portion of the cost financed by users of the District's programs was \$347,771.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$341,967.
- The net cost portion of governmental activities was financed with \$1,255,493 in local taxes, \$229,515 in statewide sales, services and use tax, \$1,597,398 in unrestricted state grants, \$99,872 in nonspecific program federal grants, \$3,749 in unrestricted investment earnings and \$154,894 in other general revenues.

## Business type Activities

Revenues of the District's business type activities were \$130,627 and expenses were \$132,632. 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 \$1,525,783 over last year's ending fund balances of \$1,027,422.

## Governmental Fund Highlights

The District's increase in General Fund financial position is the result of many factors. Local revenues increased by \$88,443 or 6.33% and state revenues increased by \$251,715 or 16.26%. The District reduced General Fund expenditures by \$38,151 or 1.19%. The decrease was primarily due to negotiated salaries and benefits.

The Capital Projects Fund balance increased from a restated balance of \$404,560 at the beginning of the fiscal year 2011 to \$621,746. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. This increase was the result of statewide sales, services and use tax revenues in excess of capital expenditures.

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## Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$61,097 at June 30, 2010 to \$59,092 at June 30, 2011 representing a decrease of 3.28% over the prior year.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$299,514 less than budgeted revenues, a variance of 6.71%. 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, 2011, the District had invested \$943,238, 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 \$105,334.

The original cost of the District's capital assets was \$3,700,493 Governmental funds account for \$3,628,059 with the remainder of \$72,434 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 \$149,547 at June 30, 2011, compared to \$178,233 reported at June 30, 2010. The decrease is due to depreciation expense taken during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 11,470	11,470	-	-	11,470	11,470	0.00%
Buildings	620,463	658,785	-	-	620,463	658,785	-6.18%
Land improvements	161,758	171,898	-	-	161,758	171,898	-6.27%
Machinery and equipment	142,645	170,604	6,902	7,629	149,547	178,233	-19.18%
Total	\$ 936,336	1,012,757	6,902	7,629	943,238	1,020,386	-7.56%

### Long-Term Debt

At year-end, the District had \$97,003 in other long-term debt outstanding. This represents a decrease of 34.26%. (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: Statewide Sales Services and Use Tax Fund of \$24,111 at June 30, 2011.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$50,273 at June 30, 2011.

The District had a net OPEB liability of \$22,619 at June 30, 2011.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change June 30, 2010-11
	June 30,		June 30,		June 30,		
	2011	2010	2011	2010	2011	2010	
Revenue bonds	\$ 24,111	36,167	-	-	24,111	36,167	-33.33%
Early retirement	50,273	100,545	-	-	50,273	100,545	-50.00%
Net OPEB liability	22,306	10,701	313	150	22,619	10,851	108.45%
Total	\$ 96,690	147,413	313	150	97,003	147,563	-34.26%

## 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.

Allowable growth has not been set for the 2013-2014 school year.

- The 2011 General Assembly established allowable growth at 2% for school districts for the 2012-2013 fiscal year. Allowable growth has not been set for the 2013-2014 school year.
- The District has experienced an increased enrollment for the last few years.

## 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, 2011

	Governmental Activities	Business type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,670,631	51,656	1,722,287
Receivables:			
Property tax:			
Delinquent	17,823	-	17,823
Succeeding year	1,154,792	-	1,154,792
Accounts	-	598	598
Due from other governments	175,307	-	175,307
Inventories	-	2,227	2,227
Capital assets, net of accumulated depreciation	936,336	6,902	943,238
<b>TOTAL ASSETS</b>	<b>3,954,889</b>	<b>61,383</b>	<b>4,016,272</b>
<b>LIABILITIES</b>			
Accounts payable	54,097	-	54,097
Salaries and benefits payable	279,592	1,978	281,570
Deferred revenue:			
Succeeding year property tax	1,154,792	-	1,154,792
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	41,284	-	41,284
Revenue bond payable	12,056	-	12,056
Portion due after one year:			
Early retirement payable	8,989	-	8,989
Revenue bond payable	12,055	-	12,055
Net OPEB liability	22,306	313	22,619
<b>TOTAL LIABILITIES</b>	<b>1,585,171</b>	<b>2,291</b>	<b>1,587,462</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	912,225	6,902	919,127
Restricted for:			
Categorical funding	58,508	-	58,508
School infrastructure	412,202	-	412,202
Physical plant and equipment	209,544	-	209,544
Management levy purposes	24,064	-	24,064
Student activities	106,412	-	106,412
Debt service	6,028	-	6,028
Unrestricted	640,735	52,190	692,925
<b>TOTAL NET ASSETS</b>	<b>\$ 2,369,718</b>	<b>59,092</b>	<b>2,428,810</b>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 1,501,121	177,027	74,709	(1,249,385)	-	(1,249,385)
Special	414,368	67,976	26,183	(320,209)	-	(320,209)
Other	438,045	102,768	101,151	(234,126)	-	(234,126)
	<u>2,353,534</u>	<u>347,771</u>	<u>202,043</u>	<u>(1,803,720)</u>	<u>-</u>	<u>(1,803,720)</u>
Support services:						
Student	87,680	-	-	(87,680)	-	(87,680)
Instructional staff	129,209	-	2,230	(126,979)	-	(126,979)
Administration	365,996	-	-	(365,996)	-	(365,996)
Operation and maintenance of plant	262,184	-	3,360	(258,824)	-	(258,824)
Transportation	178,117	-	1,295	(176,822)	-	(176,822)
	<u>1,023,186</u>	<u>-</u>	<u>6,885</u>	<u>(1,016,301)</u>	<u>-</u>	<u>(1,016,301)</u>
Other expenditures:						
AEA flowthrough	133,039	-	133,039	-	-	-
Depreciation(unallocated)*	48,462	-	-	(48,462)	-	(48,462)
	<u>181,501</u>	<u>-</u>	<u>133,039</u>	<u>(48,462)</u>	<u>-</u>	<u>(48,462)</u>
Total governmental activities	3,558,221	347,771	341,967	(2,868,483)	-	(2,868,483)
Business type activities:						
Instruction:						
Regular	4,773	-	-	-	(4,773)	(4,773)
Support services:						
Administration	11,171	-	-	-	(11,171)	(11,171)
Operation and maintenance of plant	8,186	-	-	-	(8,186)	(8,186)
	<u>19,357</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,357)</u>	<u>(19,357)</u>
Non-instructional programs:						
Nutrition services	108,502	74,711	55,308	-	21,517	21,517
Total business type activities	<u>132,632</u>	<u>74,711</u>	<u>55,308</u>	<u>-</u>	<u>(2,613)</u>	<u>(2,613)</u>
Total	<u>\$ 3,690,853</u>	<u>422,482</u>	<u>397,275</u>	<u>(2,868,483)</u>	<u>(2,613)</u>	<u>(2,871,096)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 1,231,610	-	1,231,610
Capital outlay				23,883	-	23,883
Statewide sales, services and use tax				229,515	-	229,515
Unrestricted state grants				1,597,398	-	1,597,398
Nonspecific program federal grants				99,872	-	99,872
Unrestricted investment earnings				3,749	17	3,766
Other general revenues				154,894	591	155,485
Total general revenues				<u>3,340,921</u>	<u>608</u>	<u>3,341,529</u>
Change in net assets				472,438	(2,005)	470,433
Net assets beginning of year				<u>1,897,280</u>	<u>61,097</u>	<u>1,958,377</u>
Net assets end of year				<u>\$ 2,369,718</u>	<u>59,092</u>	<u>2,428,810</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, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 938,510	546,693	181,139	1,666,342
Receivables:				
Property tax:				
Delinquent	16,916	339	568	17,823
Succeeding year	1,010,068	24,724	120,000	1,154,792
Due from other funds	-	-	5,120	5,120
Due from other governments	100,593	74,714	-	175,307
<b>TOTAL ASSETS</b>	<b>\$ 2,066,087</b>	<b>646,470</b>	<b>306,827</b>	<b>3,019,384</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	\$ 5,120	-	-	5,120
Accounts payable	54,047	-	50	54,097
Salaries and benefits payable	279,592	-	-	279,592
Deferred revenue:				
Succeeding year property tax	1,010,068	24,724	120,000	1,154,792
Total liabilities	1,348,827	24,724	120,050	1,493,601
Fund balances:				
Restricted for:				
Categorical funding	58,508	-	-	58,508
School infrastructure	-	412,202	-	412,202
Physical plant and equipment	-	209,544	-	209,544
Management levy purposes	-	-	74,337	74,337
Student activities	-	-	106,412	106,412
Debt service	-	-	6,028	6,028
Unassigned	658,752	-	-	658,752
Total fund balances	717,260	621,746	186,777	1,525,783
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,066,087</b>	<b>646,470</b>	<b>306,827</b>	<b>3,019,384</b>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

<b>Total fund balances of governmental funds(page 20)</b>	\$	1,525,783
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		936,336
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		4,289
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.		<u>(96,690)</u>
<b>Net assets of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>2,369,718</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	General	Captial Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 1,191,560	253,398	40,050	1,485,008
Tuition	227,174	-	-	227,174
Other	66,978	987	225,530	293,495
State sources	1,799,626	-	-	1,799,626
Federal sources	225,356	-	-	225,356
<b>TOTAL REVENUES</b>	<b>3,510,694</b>	<b>254,385</b>	<b>265,580</b>	<b>4,030,659</b>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	1,490,824	-	56,112	1,546,936
Special	411,918	-	-	411,918
Other	207,170	-	229,385	436,555
	<u>2,109,912</u>	<u>-</u>	<u>285,497</u>	<u>2,395,409</u>
Support services:				
Student	87,380	-	-	87,380
Instructional staff	117,234	19,394	-	136,628
Administration	361,692	-	1,893	363,585
Operation and maintenance of plant	218,471	2,374	35,993	256,838
Transportation	142,600	-	1,388	143,988
	<u>927,377</u>	<u>21,768</u>	<u>39,274</u>	<u>988,419</u>
Other expenditures:				
Facilities acquisitions	-	3,375	-	3,375
Long-term debt:				
Principal	-	-	12,056	12,056
Interest	-	-	-	-
AEA flowthrough	133,039	-	-	133,039
	<u>133,039</u>	<u>3,375</u>	<u>12,056</u>	<u>148,470</u>
<b>TOTAL EXPENDITURES</b>	<b>3,170,328</b>	<b>25,143</b>	<b>336,827</b>	<b>3,532,298</b>
Excess(Deficiency) of revenues over(under) expenditures	340,366	229,242	(71,247)	498,361
Other financing sources(uses):				
Transfer in	-	-	12,056	12,056
Transfer out	-	(12,056)	-	(12,056)
Total other financing sources(uses)	<u>-</u>	<u>(12,056)</u>	<u>12,056</u>	<u>-</u>
Net change in fund balances	340,366	217,186	(59,191)	498,361
Fund balance beginning of year, as restated	376,894	404,560	245,968	1,027,422
Fund balance end of year	<u>\$ 717,260</u>	<u>621,746</u>	<u>186,777</u>	<u>1,525,783</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, 2011

Net change in fund balances - total governmental funds(page 22) \$ 498,361

*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	\$ 27,516	
Depreciation expense	(103,937)	(76,421)

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. (225)

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	50,272	
Other postemployment benefits	(11,605)	38,667

Changes in net assets of governmental activities(page 19) \$ 472,438

PRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	Business Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
<b>ASSETS</b>		
Cash and pooled investments	\$ 51,656	4,289
Accounts receivable	598	-
Inventories	2,227	-
Capital assets, net of accumulated depreciation	6,902	-
<b>TOTAL ASSETS</b>	<b>61,383</b>	<b>4,289</b>
<b>LIABILITIES</b>		
Salaries and benefits payable	1,978	-
Net OPEB liability	313	-
<b>TOTAL LIABILITIES</b>	<b>2,291</b>	<b>-</b>
<b>NET ASSETS</b>		
Invested in capital assets	6,902	-
Unrestricted	52,190	4,289
<b>TOTAL NET ASSETS</b>	<b>\$ 59,092</b>	<b>4,289</b>

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, 2011

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 74,711	2,452
Miscellaneous revenue	591	-
TOTAL OPERATING REVENUES	<u>75,302</u>	<u>2,452</u>
OPERATING EXPENSES:		
Instruction:		
Regular:		
Salaries	4,103	-
Benefits	670	-
	<u>4,773</u>	<u>-</u>
Support services:		
Administration:		
Salaries	6,862	-
Benefits	3,822	-
Services	-	2,677
Other	487	-
	<u>11,171</u>	<u>2,677</u>
Operation and maintenance of plant:		
Salaries	4,423	-
Benefits	2,287	-
Services	1,476	-
	<u>8,186</u>	<u>-</u>
Total support services	<u>19,357</u>	<u>2,677</u>
Non-instructional programs:		
Food service operations:		
Salaries	42,674	-
Benefits	10,864	-
Services	147	-
Supplies	53,420	-
Depreciation	1,397	-
Total non-instructional programs	<u>108,502</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>132,632</u>	<u>2,677</u>
OPERATING LOSS	(57,330)	(225)
NON-OPERATING REVENUES:		
Interest on investments	17	-
State sources	1,529	-
Federal sources	53,779	-
TOTAL NON-OPERATING REVENUES	<u>55,325</u>	<u>-</u>
Change in net assets	(2,005)	(225)
Net assets beginning of year	<u>61,097</u>	<u>4,514</u>
Net assets end of year	<u>\$ 59,092</u>	<u>4,289</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011

	Business Type	
	Activities:	
	Enterprise Fund	Governmental Activities:
	School	Internal
	Nutrition	Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 74,607	-
Cash received from miscellaneous operating activities	591	2,452
Cash payments to employees for services	(74,100)	-
Cash payments to suppliers for goods or services	(40,876)	(2,677)
Net cash used in operating activities	(39,778)	(225)
Cash flows provided by non-capital financing activities:		
State grants received	1,529	-
Federal grants received	42,246	-
Net cash provided by non-capital financing activities	43,775	-
Cash flows from capital and related financing activities:		
Purchase of capital assets	(670)	-
Cash flows from investing activities:		
Interest on investments	17	-
Net increase (decrease) in cash and cash equivalents	3,344	(225)
Cash and cash equivalents at beginning of year	48,312	4,514
Cash and cash equivalents at end of year	\$ 51,656	4,289
Reconciliation of operating loss to net cash used in in operating activities:		
Operating loss	\$ (57,330)	(225)
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:		
Commodities consumed	11,533	-
Depreciation	1,397	-
Decrease in inventories	3,121	-
Increase in accounts receivable	(104)	-
Increase in salaries and benefits payable	1,442	-
Increase in OPEB liability	153	-
Net cash used in operating activities	\$ (39,788)	(225)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received Federal commodities valued at \$11,533.

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2011

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash and pooled investments	\$ 144,483	846
<b>LIABILITIES</b>		
Due to other groups	-	846
<b>NET ASSETS</b>		
Restricted for scholarships	<u>\$ 144,483</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Donations	\$ 4,950
Interest income	816
Total additions	5,766
Deductions:	
Instruction:	
Regular instruction:	
Scholarships awarded	5,119
Change in net assets before other financing sources	647
Other financing sources(uses):	
Transfer in	1,996
Transfer out	(1,996)
Total other financing sources(uses)	0
Change in net assets	647
Net assets beginning of year	143,836
Net assets end of year	\$ 144,483

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

**(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. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - restricted and then unassigned fund balances.

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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 years
Machinery and equipment	5-20 years

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. 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 Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in other spendable classifications.

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.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 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, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$25,524 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) **Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 12,056
Private Purpose Trust: Carsten Scholarship	Private Purpose Trust: School Sponsored	134
Private Purpose Trust: Black Scholarship	Private Purpose Trust: Wendell Scholarship	1,862
Total		<u>\$ 14,052</u>

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

The transfers amongst the Private Purpose trust Funds were for receipts recorded in the wrong funds.

**(4) Due From and Due to Other Funds**

Receivable Fund	Payable Fund	Amount
Special Revenue, Student Activity	General Fund	\$ 5,120

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, 2012.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2011 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	11,470	-	-	11,470
Capital assets being depreciated:				
Buildings	1,934,062	-	-	1,934,062
Land improvements	272,160	-	-	272,160
Machinery and equipment	1,609,813	27,516	226,962	1,410,367
Total capital assets being depreciated	3,816,035	27,516	226,962	3,616,589
Less accumulated depreciation for:				
Buildings	1,275,277	38,322	-	1,313,599
Land improvements	100,262	10,140	-	110,402
Machinery and equipment	1,439,209	55,475	226,962	1,267,722
Total accumulated depreciation	2,814,748	103,937	226,962	2,691,723
Total capital assets being depreciated, net	1,001,287	(76,421)	-	924,866
Governmental activities capital assets, net	\$ 1,012,757	(76,421)	-	936,336
Business type activities:				
Machinery and equipment	\$ 71,764	670	-	72,434
Less accumulated depreciation	64,135	1,397	-	65,532
Business type activities capital assets, net	\$ 7,629	(727)	-	6,902

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,014
Support services:	
Instructional staff	6,747
Administration	12,577
Operation and maintenance of plant	1,105
Transportation	34,032
	<u>55,475</u>
Unallocated depreciation	<u>48,462</u>
	<u>\$ 103,937</u>
Business type activities:	
Food services	<u>\$ 1,397</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early retirement	100,545	-	50,272	50,273	41,284
Revenue Bond	36,167	-	12,056	24,111	12,056
OPEB liability	10,701	11,605	-	22,306	-
Total	<u>\$ 147,413</u>	<u>11,605</u>	<u>62,328</u>	<u>96,690</u>	<u>53,340</u>

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	<u>\$ 150</u>	<u>163</u>	<u>-</u>	<u>313</u>	<u>-</u>

Revenue Bonds

Details of District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of August 8, 2007			
	Interest Rates	Principal	Interest	Total
2011	4.88	% \$ 12,056	*	12,056
2012	4.88	12,055	*	12,055
Total		<u>\$ 24,111</u>	<u>*</u>	<u>24,111</u>

\* Interest is paid by the National Safe Surfacing Initiative, LLC(NSSI). On August 8, 2007, the NSSI deposited \$9,082, total interest due to the maturity of the Capital Loan Notes, into an irrevocable escrow account established pursuant to the an escrow agreement between the District, NSSI, and Bankers Trust

Company N.A., escrow agent. The account is owned by NSSI and held by the escrow agent. Interest on the capital loan notes is due annually on July 1 and is paid directly from the escrow account.

The District has pledged future statewide sales, services and use 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 sales, services and use 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 5.25 percent of the statewide sales, services and use tax revenues. The total principal remaining to be paid on the bonds is \$24,111. For the current year, principal of \$12,056 was paid on the bonds and total statewide sales, services and use tax revenues were \$229,515.

#### 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, 2011, the District paid \$50,272 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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$121,178, \$126,679 and \$129,271 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 \$133,039 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Other Postemployment Benefits(OPEB)**

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, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 17,237
Interest on net OPEB obligation	271
Adjustment to annual required contribution	(1,343)
Annual OPEB cost	<u>16,165</u>
Contributions made	<u>(4,397)</u>
Increase in net OPEB obligation	11,768
Net OPEB obligation beginning of year	10,851
Net OPEB obligation end of year	<u><u>\$ 22,619</u></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, 2011.

For the year ended June 30, 2011, the District contributed \$4,397 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, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 16,447	26.73%	\$ 10,851
2011	16,165	27.20%	22,619

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, 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 \$1,433,177 and the ratio of the UAAL to covered payroll was 11.2%. As of June 30, 2011, 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 restricted fund balance for categorical funding at the year ended June 30, 2011 is comprised of the following programs:

Program	Amount
Talented and gifted	\$ 23,585
Teacher salary supplement	16,292
Beginning teacher mentoring	1,370
Market Factor	1,967
Core curriculum	8,828
Professional development	6,441
Market factor incentives	25
Total	<u>\$ 58,508</u>

**(12) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, FundBalance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassification is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010 as previously reported	\$ 219,829	184,731
Change in fund type classification per implementation of GASB Statement No. 54	184,731	(184,731)
Balance July 1, 2010 as restated	<u>\$ 404,560</u>	<u>\$ 0</u>

REQUIRED SUPPLEMENTARY INFORMATION

PRESTON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,005,677	75,319	2,080,996	2,087,165	2,087,165	(6,169)
State sources	1,799,626	1,529	1,801,155	2,037,135	2,037,135	(235,980)
Federal sources	225,356	53,779	279,135	336,500	336,500	(57,365)
Total revenues	<u>4,030,659</u>	<u>130,627</u>	<u>4,161,286</u>	<u>4,460,800</u>	<u>4,460,800</u>	<u>(299,514)</u>
Expenditures/expenses:						
Instruction	2,395,409	4,773	2,400,182	2,600,570	2,600,570	200,388
Support services	988,419	19,357	1,007,776	1,355,359	1,355,359	347,583
Non-instructional programs	-	108,502	108,502	154,970	154,970	46,468
Other expenditures	148,470	-	148,470	354,729	354,729	206,259
Total expenditures/expenses	<u>3,532,298</u>	<u>132,632</u>	<u>3,664,930</u>	<u>4,465,628</u>	<u>4,465,628</u>	<u>800,698</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	498,361	(2,005)	496,356	(4,828)	(4,828)	501,184
Balance beginning of year	<u>1,027,422</u>	<u>61,097</u>	<u>1,088,519</u>	<u>956,421</u>	<u>956,421</u>	<u>132,098</u>
Balance end of year	<u>\$ 1,525,783</u>	<u>59,092</u>	<u>1,584,875</u>	<u>951,593</u>	<u>951,593</u>	<u>633,282</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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%
2011	July 1, 2009	-	160,019	160,019	0.0%	1,433,177	11.2%

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, 2011

	Special Revenue				Total Nonmajor Governmental Funds
	Management Levy	Student Activity	Total Special Revenue Funds	Debt Service	
<b>ASSETS</b>					
Cash and pooled investments	\$ 73,769	101,342	175,111	6,028	181,139
Receivables:					
Property tax:					
Delinquent	568	-	568	-	568
Succeeding year	120,000	-	120,000	-	120,000
Due from other funds	-	5,120	5,120	-	5,120
<b>TOTAL ASSETS</b>	<b>\$ 194,337</b>	<b>106,462</b>	<b>300,799</b>	<b>6,028</b>	<b>306,827</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ -	50	50	-	50
Deferred revenue:					
Succeeding year property tax	120,000	-	120,000	-	120,000
Total Liabilities	120,000	50	120,050	-	120,050
Fund balances:					
Restricted for:					
Management levy purposes	74,337	-	74,337	-	74,337
Student activities	-	106,412	106,412	-	106,412
Debt service	-	-	-	6,028	6,028
Total fund balances	74,337	106,412	180,749	6,028	186,777
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 194,337</b>	<b>106,462</b>	<b>300,799</b>	<b>6,028</b>	<b>306,827</b>

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, 2011

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total		
REVENUES:					
Local sources:					
Local tax	\$ 40,050	-	40,050	-	40,050
Other	-	225,530	225,530	-	225,530
Total revenues	40,050	225,530	265,580	-	265,580
EXPENDITURES:					
Current:					
Instruction:					
Regular	56,112	-	56,112	-	56,112
Other	-	229,385	229,385	-	229,385
Support services:					
Administration	1,893	-	1,893	-	1,893
Operation and maintenance of plant	35,993	-	35,993	-	35,993
Transportation	1,388	-	1,388	-	1,388
Other expenditures:					
Long-term debt:					
Principal	-	-	-	12,056	12,056
Total expenditures	95,386	229,385	324,771	12,056	336,827
Deficiency of revenues under expenditures	(55,336)	(3,855)	(59,191)	(12,056)	(71,247)
Other financing sources:					
Transfer in	-	-	-	12,056	12,056
Net change in fund balances	(55,336)	(3,855)	(59,191)	-	(59,191)
Fund balance beginning of year, as restated	129,673	110,267	239,940	6,028	245,968
Fund balance end of year	\$ 74,337	106,412	180,749	6,028	186,777

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 337,488	209,205	546,693
Receivables:			
Property tax:			
Delinquent	-	339	339
Succeeding year	-	24,724	24,724
Due from other governments	74,714	-	74,714
<b>TOTAL ASSETS</b>	<b>\$ 412,202</b>	<b>234,268</b>	<b>646,470</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	24,724	24,724
Fund balances:			
Restricted for:			
School infrastructure	412,202	-	412,202
Physical plant and equipment	-	209,544	209,544
Total fund balances	412,202	209,544	621,746
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 412,202</b>	<b>234,268</b>	<b>646,470</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 229,515	23,883	253,398
Other	57	930	987
Total revenues	<u>229,572</u>	<u>24,813</u>	<u>254,385</u>
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	19,394	-	19,394
Operation and maintenance of plant	2,374	-	2,374
Other expenditures:			
Facilities acquisitions	3,375	-	3,375
Total expenditures	<u>25,143</u>	<u>-</u>	<u>25,143</u>
Excess of revenues over expenditures	204,429	24,813	229,242
Other financing uses:			
Transfer out	(12,056)	-	(12,056)
Net change in fund balances	192,373	24,813	217,186
Fund balances beginning of year, as restated	219,829	184,731	404,560
Fund balances end of year	<u>\$ 412,202</u>	<u>209,544</u>	<u>621,746</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESTON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 8,480	419	-	8,899
Drama-Thespians	4,735	4,943	4,084	5,594
Dance Club	310	-	-	310
K-6 Music	200	-	-	200
Chorus-Extras	597	434	925	106
Instrumental Rental and Supply	910	150	-	1,060
Band-Extras	217	29	246	-
Performing Arts Boosters	30,272	42,017	55,360	16,929
State Tournament	(1,447)	254	(1,193)	-
Athletic	12,346	56,318	61,855	6,809
Athletic Wear	3,983	-	-	3,983
Track	-	5,221	2,393	2,828
Boys Basketball Fundraiser	667	2,744	2,196	1,215
Football	2,137	2,205	1,582	2,760
Baseball	454	7,114	4,385	3,183
Girls Basketball Fundraiser	292	1,405	394	1,303
Volleyball	2,046	3,623	5,004	665
Softball Fundraisers	3,451	10,841	7,561	6,731
Girls golf	50	-	-	50
Cheerleaders	104	173	-	277
Athletic Boosters	13,968	51,095	42,478	22,585
SES	1	390	201	190
FCCLA	72	-	-	72
FFA	5,610	15,662	17,168	4,104
Class of 2009	(100)	100	-	-
Class of 2010	756	-	100	656
Class of 2011	1,409	-	1,226	183
Class of 2012	2,392	11,808	13,161	1,039
NHS	76	299	309	66
JR. High Student Council	3,754	3,505	3,972	3,287
High School Student Council	2,694	3,494	4,474	1,714
Student Activity	9,831	1,287	1,504	9,614
Total	\$ 110,267	225,530	229,385	106,412

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2011

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Sponsored	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 127,767	11,420	5,098	198	144,483
<b>LIABILITIES</b>					
	-	-	-	-	-
<b>NET ASSETS</b>					
Reserved for scholarships	\$ 127,767	11,420	5,098	198	144,483

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, 2011

	Private Purpose Trust - Scholarship Fund				Total
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Sponsored	
Additions:					
Local sources:					
Donations	\$ 3,450	-	-	1,500	4,950
Interest income	684	120	12	-	816
	<u>4,134</u>	<u>120</u>	<u>12</u>	<u>1,500</u>	<u>5,766</u>
Deductions:					
Instruction:					
Regular instruction:					
Scholarships awarded	3,051	100	300	1,668	5,119
Excess(deficiency) of revenues over(under) expenditures	1,083	20	(288)	(168)	647
Other financing sources(uses):					
Transfers in	-	134	1,862	-	1,996
Transfers out	(1,862)	-	-	(134)	(1,996)
Total other financing sources(uses)	<u>(1,862)</u>	<u>134</u>	<u>1,862</u>	<u>(134)</u>	<u>-</u>
Changes in net assets	(779)	154	1,574	(302)	647
Net assets beginning of year	<u>128,546</u>	<u>11,266</u>	<u>3,524</u>	<u>500</u>	<u>143,836</u>
Net assets end of year	<u>\$ 127,767</u>	<u>11,420</u>	<u>5,098</u>	<u>198</u>	<u>144,483</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, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 844	2	-	846
<b>Liabilities</b>				
Due to other groups	\$ 844	2	-	846

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 EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 1,485,008	1,421,780	1,363,677	1,300,183	1,276,915	1,237,526	1,183,313	1,202,409
Tuition	227,174	248,612	247,371	211,111	222,204	209,882	201,077	182,591
Other	293,495	236,761	246,189	307,913	301,911	259,010	187,061	222,361
State sources	1,799,626	1,572,911	1,740,247	1,776,518	1,602,631	1,511,383	1,539,810	1,372,062
Federal sources	225,356	286,228	124,289	95,702	97,505	100,005	111,056	126,565
Total	\$ 4,030,659	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	\$ 1,546,936	1,550,748	1,616,074	1,473,183	1,392,014	1,302,187	1,277,207	1,235,958
Special	411,918	362,528	380,903	379,121	323,972	297,481	294,413	363,127
Other	436,555	397,620	425,867	446,804	447,131	401,155	344,709	402,428
Support services:								
Student	87,380	76,749	79,240	48,156	46,427	54,147	54,137	44,691
Instructional staff	136,628	122,991	143,386	131,575	123,615	144,152	100,510	100,571
Administration	363,585	489,584	403,676	408,759	385,662	357,299	332,905	321,181
Operation and maintenance of plant	256,838	243,588	260,350	274,512	258,537	262,065	233,310	226,555
Transportation	143,988	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	3,375	101,240	227,225	187,346	133,952	168,518	165,560	101,894
Long-term debt:								
Principal	12,056	12,056	48,382	21,490	6,137	8,171	-	-
Interest	-	3,014	4,688	1,971	2,254	220	-	-
AEA flow-through	133,039	132,320	114,781	112,494	103,657	98,556	96,664	93,208
Total	\$ 3,532,298	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

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

**Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

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

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

To the Board of Education of the  
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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 23, 2012. 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.

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 deficiency in internal control described in Part I of the accompanying Schedule of Findings and Questioned Costs as item I-A-11 to be a material weakness.

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 I of the accompanying Schedule of Findings and Questioned costs as items I-B-11 through I-D-11 to be significant deficiencies.

Members American Institute & Iowa Society of Certified Public Accountants

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, 2011 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 23, 2012

PRESTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 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 do it.

Conclusion - Response accepted.

I-B-11 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 is currently performing bank reconciliation on a monthly basis.

Conclusion - Response accepted.

I-C-11 Insurance Dividend - We noted during our audit that the District received an insurance dividend. This was receipted into the General Fund, but should have been recorded in the Special Revenue, Management Levy Fund where the insurance payments were made.

Recommendation - A corrective transfer is required to move the \$3,764.50 insurance dividend from the General Fund to the Special Revenue, Management Levy Fund. The District should also record future insurance dividends in the Special Revenue, Management Levy Fund.

Response - The District will perform the corrective transfer and future insurance dividends will be receipted in to the Special Revenue, Management Levy Fund.

Conclusion - Response accepted.

I-D-11 Board Policies - We noted during our audit the District's board policy book appears to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

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

Response - The District is in the process of reviewing and updating all policies in the Board Policy Book. The Board has set a five year schedule to keep the policies updated as required and will continue the review of the entire Board Policy Book.

Conclusion - Response accepted.

OTHER MATTERS:

I-E-11 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 least on an annual basis.

Recommendation- Interest in the Student Activity Fund should be allocated among the various accounts at least on an annual basis. The interest should be recognized by the individual clubs that earned the interest.

Response - The District will allocate interest on an annual basis in the future.

Conclusion - Response accepted.

PRESTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget - District expenditures for the year ended June 30, 2011 did not exceed the amount budgeted.
- II-B-11 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-11 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-11 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-11 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-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-11 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-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit:

Beginning balance		\$ 219,829
Revenues:		
Sales tax revenues	\$ 229,515	
Other local revenues	57	229,572
	<u>                    </u>	<u>449,401</u>
Expenditures/transfers out:		
Equipment	\$ 21,768	
Other	3,375	
Transfers to other funds:		
Debt service fund	12,056	37,199
	<u>                    </u>	<u>                    </u>
Ending balance		<u><u>\$ 412,202</u></u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

II-M-11 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 1<sup>st</sup>.

Response - The District will research these checks to determine if they need to reissued, voided or submitted to the State Treasurer as unclaimed property.

Conclusion - Response accepted.

II-N-11 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 scholarships. Any funds raised for the scholarships should be received into and expended from the Private Purpose Trust Funds.

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

Response - The District will follow the auditor's recommendation.

Conclusion - Response accepted.

II-O-11 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - Recommendation is accepted and changes will be made immediately with the cooperation of the bank.

Conclusion - Response accepted.