

ALGONA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

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Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Floyd Lavrenz	President	2011
Marc Singer	Vice President	2011
Keith Kuecker	Board Member	2013
Cheryl Grether	Board Member	2013
Jay Limbaugh	Board Member	2013
Bruce Knudsen	Board Member	2011
Rodney Davis	Board Member	2011
(After September 2011 Election)		
Floyd Lavrenz	President	2015
Cheryl Grether	Vice President	2013
Keith Kuecker	Board Member	2013
Jody Solbach	Board Member	2015
Jay Limbaugh	Board Member	2013
Bruce Knudsen	Board Member	2015
Rodney Davis	Board Member	2015
School Officials		
Marty Fonley	Superintendent	2012
Mary Beth Wubben	Board Secretary/ District Treasurer	2012
Stephen Avery	Attorney	2012
Tom Lipps	Attorney	2012

Algona 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
Algona 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 Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2012, 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, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2013 on our consideration of Algona 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information the Schedule of Funding Progress for the Retiree Health Plan and the combining statements for the discretely presented component units on pages 7 through 16 and 44 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Algona 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 nine years ended June 30, 2011 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona 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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$14,458,248 in fiscal 2011 to \$14,982,658 in fiscal 2012, while General Fund expenditures increased from \$13,880,486 in fiscal 2011 to \$14,074,581 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$1,255,964 in fiscal 2011 to \$2,164,041 in fiscal 2012.
- The increase in General Fund revenues was attributable to increases in local tax and state sourced revenue in fiscal 2012. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.

USING THIS ANNUAL REPORT

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

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

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

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

Notes to the 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.

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

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

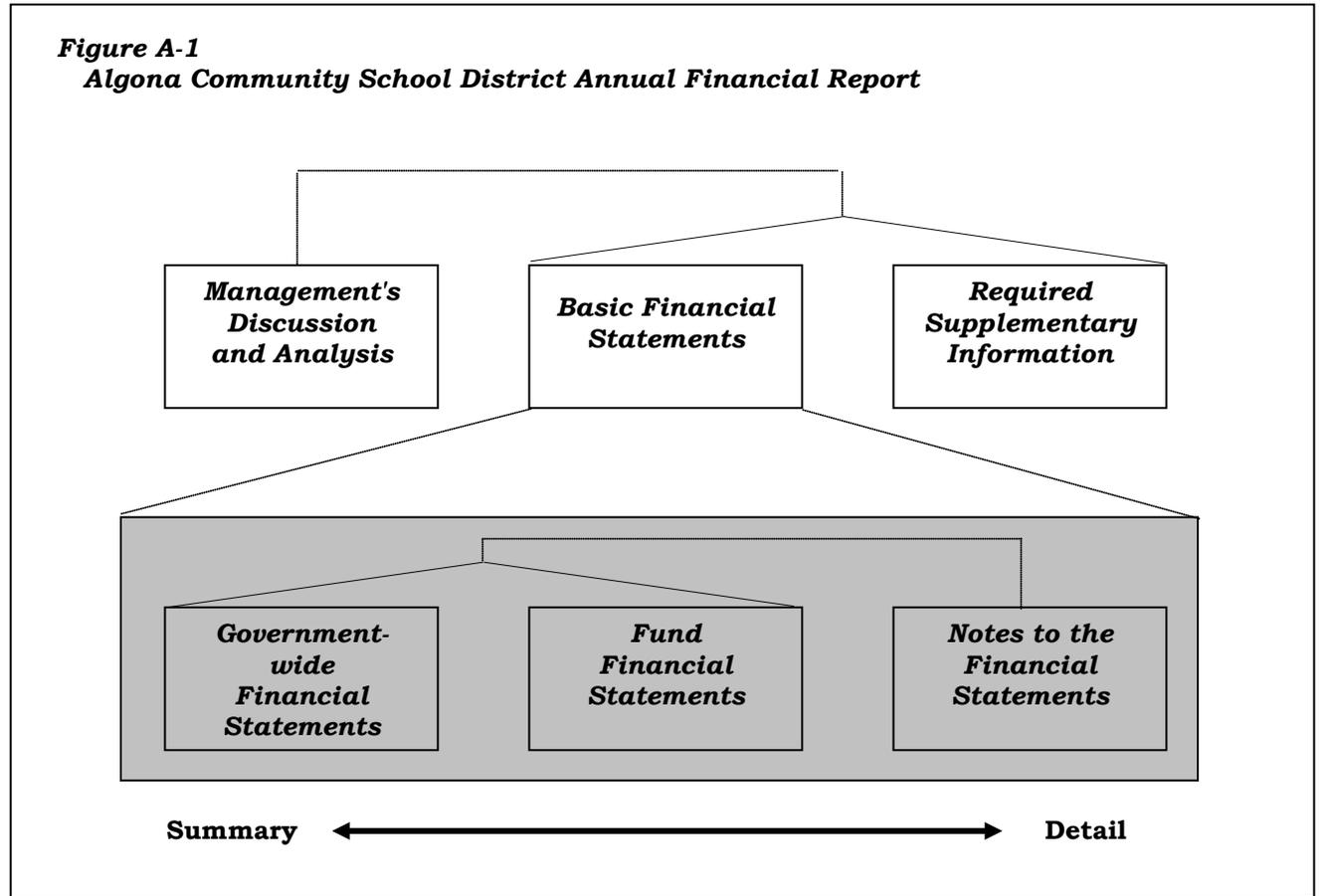


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Preschool Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds, which include the Self-Funded Health Insurance Fund and Flex Benefit Fund.

The required financial statements for the proprietary funds include a statement of net assets, statement of revenues, expenses and changes in fund 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 includes the Agency 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 District-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, 2012 compared to June 30, 2011.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 13,207,697	13,330,859	34,002	40,354	13,241,699	13,371,213	-0.97%
Capital assets	12,952,476	12,747,820	67,833	57,157	13,020,309	12,804,977	1.68%
Total assets	26,160,173	26,078,679	101,835	97,511	26,262,008	26,176,190	0.33%
Long-term obligations	8,802,583	9,557,869	10,616	6,710	8,813,199	9,564,579	-7.86%
Other liabilities	7,346,220	7,738,672	66,288	17,771	7,412,508	7,756,443	-4.43%
Total liabilities	16,148,803	17,296,541	76,904	24,481	16,225,707	17,321,022	-6.32%
Net assets:							
Invested in capital assets, net of related debt	4,497,476	3,497,820	67,833	57,157	4,565,309	3,554,977	28.42%
Restricted	2,238,327	2,352,351	-	29,597	2,238,327	2,381,948	-6.03%
Unrestricted	3,275,567	2,931,967	(42,902)	(13,724)	3,232,665	2,918,243	10.77%
Total net assets	\$ 10,011,370	8,782,138	24,931	73,030	10,036,301	8,855,168	13.34%

The District's combined net assets increased by 13.34%, or \$1,181,133, over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$143,621, or 6.03% over the prior year. The decrease in restricted net assets can be attributed to the decrease in fund balance of the Debt Service Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$314,422 or 10.77%. The increase in unrestricted net assets can be attributed to the increase in fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4
Changes of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Revenues and Transfers							
Program revenues:							
Charges for services	\$ 1,914,726	1,678,030	296,503	257,886	2,211,229	1,935,916	14.22%
Operating grants, contributions and restricted interest	1,273,953	1,392,531	310,620	280,759	1,584,573	1,673,290	-5.30%
Capital grants, contributions and restricted interest	-	91,020	-	-	-	91,020	-100.00%
General revenues:							
Property tax	6,148,651	5,978,029	-	-	6,148,651	5,978,029	2.85%
Income surtax	601,540	585,463	-	-	601,540	585,463	2.75%
Statewide sales, services and use tax	1,036,632	991,721	-	-	1,036,632	991,721	4.53%
Unrestricted state grants	5,512,827	5,118,223	-	-	5,512,827	5,118,223	7.71%
Nonspecific program federal grants	189,422	211,313	-	-	189,422	211,313	-10.36%
Unrestricted investment earnings	3,711	38,718	29	65	3,740	38,783	-90.36%
Other	256,465	275,056	10,554	14,470	267,019	289,526	-7.77%
Transfers	-	101,144	-	(101,144)	-	-	-100.00%
Total revenues and transfers	16,937,927	16,461,248	617,706	452,036	17,555,633	16,913,284	3.80%
Program expenses:							
Governmental activities:							
Instruction	11,089,230	10,201,919	91,535	25,085	11,180,765	10,227,004	9.33%
Support services	3,023,771	4,707,201	8,621	11,669	3,032,392	4,718,870	-35.74%
Non-instructional programs	-	-	565,649	508,229	565,649	508,229	11.30%
Other expenses	1,595,694	1,480,282	-	-	1,595,694	1,480,282	7.80%
Total expenses	15,708,695	16,389,402	665,805	544,983	16,374,500	16,934,385	-3.31%
Change in net assets	1,229,232	71,846	(48,099)	(92,947)	1,181,133	(21,101)	-5697.52%
Net assets beginning of year	8,782,138	8,710,292	73,030	165,977	8,855,168	8,876,269	-0.24%
Net assets end of year	\$ 10,011,370	8,782,138	24,931	73,030	10,036,301	8,855,168	13.34%

In fiscal 2012, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 78.52% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.29% of the revenue from business type activities.

The District's total revenues were approximately \$17.5 million of which approximately \$16.9 million was for governmental activities and approximately \$0.6 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.80% in revenues and a 3.31% decrease in expenses. The decrease in expenses was related to the decrease in support services costs during the year. The increase in revenues was related to increases in local tax and state revenues.

Governmental Activities

Revenues for governmental activities were \$16,937,927 and expenses were \$15,708,695.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 11,089,230	10,201,919	8.70%	8,520,219	7,809,938	9.09%
Support services	3,023,771	4,707,201	-35.76%	2,925,004	4,515,398	-35.22%
Other expenses	1,595,694	1,480,282	7.80%	1,074,793	902,485	19.09%
Totals	<u>\$ 15,708,695</u>	<u>16,389,402</u>	<u>-4.15%</u>	<u>12,520,016</u>	<u>13,227,821</u>	<u>-5.35%</u>

- The cost financed by users of the District's programs was \$1,914,726.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,273,953.
- The net cost of governmental activities was financed with \$6,148,651 in property tax, \$601,540 in income surtax, \$1,036,632 in statewide sales, services and use tax, \$5,512,827 in unrestricted state grants, \$189,422 in nonspecific program federal grants, \$3,711 in interest income and \$256,465 in other general revenues.

Business type Activities

Revenues for the District's business type activities were \$617,706 and expenses were \$665,805. The District's business type activities include the School Nutrition Fund and the Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,857,154, compared to last year's ending fund balances of \$3,243,961. However, the primary reason for the increase was due to the increase in fund balance of the General Fund.

Governmental Fund Highlights

- The District's General Fund balance increased from \$1,255,964 on June 30, 2012 to \$2,164,041 on June 30, 2012. The District's General Fund financial position is the product of many factors. Increases in local and state source revenues in 2012 lead to an increase in revenues for the General Fund when compared to the previous year.

-
- The Debt Service Fund balance decreased from \$1,444,143 to \$818,111, due to the principal and interest payments on the Districts bond indebtedness.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$73,213 at June 30, 2011 to \$97,223 at June 30, 2012, representing an increase of 32.79%. The District's Preschool Fund net assets decreased from a deficit balance of \$183 at June 30, 2011 to a deficit balance of \$72,292 at June 30, 2012.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,082,749 more than budgeted revenues, a variance of more than 6.41%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted, primarily to the District's budget for the Capital Projects 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, non-instructional programs and other expenditures functional areas and in total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$13,020,309, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.68% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$641,558.

The original cost of the District's capital assets was \$23,916,517. Governmental funds account for \$23,768,698 with the remainder of \$147,819 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$87,714 at June 30, 2011 compared to \$93,284 at June 30, 2012. This increase resulted from the work done on football practice field during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 87,674	87,674	-	-	87,674	87,674	0.00%
Buildings	11,881,457	11,703,559	-	-	11,881,457	11,703,559	1.52%
Land improvements	93,284	87,714	-	-	93,284	87,714	6.35%
Machinery and equipment	890,061	868,873	67,833	57,157	957,894	926,030	3.44%
Total	\$ 12,952,476	12,747,820	67,833	57,157	13,020,309	12,804,977	1.68%

Long-Term Debt

At June 30, 2012, the District had long-term debt outstanding of \$8,813,199 in long-term debt outstanding. This represents a decrease of 7.86% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding Revenue Bonds payable of \$8,455,000 at June 30, 2012.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$72,664 at June 30, 2012.

The District had a net OPEB liability of \$285,535 at June 30, 2012.

Figure A-7
Outstanding Long-Term Obligations

	Business Type		Total		Total		
	Activities		School		Change		
	June 30,		June 30,		June 30,		
	2012	2011	2012	2011	2011-12		
Revenue bonds	\$ 8,455,000	9,250,000	-	-	8,455,000	9,250,000	8.59%
Early retirement	72,664	190,088	-	-	72,664	190,088	61.77%
Net OPEB liability	274,919	117,781	10,616	6,710	285,535	124,491	-129.36%
Total	\$ 8,802,583	9,557,869	10,616	6,710	8,813,199	9,564,579	-7.86%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 8 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.

-
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.
 - On February 5, 2013, the Titonka Consolidated School District and the Algona Community School District held a public meeting for consolidation of the two districts. Residents of the Titonka Consolidated School District passed the resolution to merge with Algona Community School District on a 79.9% vote. Residents of the Algona Community School District passed a resolution to merge with Titonka Consolidated School District on a 95% vote. As of July 1, 2014, the two districts will be consolidated as one.

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 Mary Beth Wubben, District Treasurer, Algona Community School District, 600 S. Hale St., Algona, Iowa, 50511.

BASIC FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Algona Community School Foundation
Assets				
Cash and pooled investments:	\$ 5,480,965	-	5,480,965	3,168,934
Receivables:				
Property tax:				
Delinquent	70,654	-	70,654	-
Succeeding year	6,209,436	-	6,209,436	-
Income surtax	609,415	-	609,415	-
Accounts	7,490	18,622	26,112	-
Due from other governments	829,737	-	829,737	-
Inventories	-	15,380	15,380	-
Capital assets, net of accumulated depreciation	12,952,476	67,833	13,020,309	-
Assets	26,160,173	101,835	26,262,008	3,168,934
Liabilities				
Warrants issued over bank balance	-	57,616	57,616	-
Accounts payable	775,301	311	775,612	-
Salaries and benefits payable	119,146	981	120,127	-
Due to other governments	8,337	-	8,337	-
Retainage payable	10,000	-	10,000	-
Incurred but not reported	224,000	-	224,000	-
Deferred revenue:				
Succeeding year property tax	6,209,436	-	6,209,436	-
Unearned revenue	-	7,380	7,380	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	405,000	-	405,000	-
Early retirement	72,664	-	72,664	-
Portion due after one year:				
Revenue bonds	8,050,000	-	8,050,000	-
Net OPEB liability	274,919	10,616	285,535	-
Total Liabilities	16,148,803	76,904	16,225,707	-
Net Assets				
Invested in capital assets, net of related debt	4,497,476	67,833	4,565,309	-
Restricted for:				
Investment	-	-	-	2,966,507
Categorical funding	431,021	-	431,021	-
Management levy purposes	452,398	-	452,398	-
Student activities	174,694	-	174,694	-
School infrastructure	362,103	-	362,103	-
Debt service	818,111	-	818,111	-
Unrestricted	3,275,567	(42,902)	3,232,665	202,427
Total Net Assets	\$ 10,011,370	24,931	10,036,301	3,168,934

SEE NOTES TO FINANCIAL STATEMENTS.

**ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Component Unit
				Governmental Activities	Business Type Activities	Algona Community School Foundation
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 5,760,970	853,023	106,903	(4,801,044)	-	-
Special	3,096,875	628,623	87,100	(2,381,152)	-	-
Other	2,231,385	431,229	462,133	(1,338,023)	-	-
	<u>11,089,230</u>	<u>1,912,875</u>	<u>656,136</u>	<u>(8,520,219)</u>	<u>-</u>	<u>-</u>
Support services:						
Student	276,251	-	-	(276,251)	-	-
Instructional staff	296,965	-	8,223	(288,742)	-	-
Administration	1,127,003	-	-	(1,127,003)	-	-
Operation and maintenance of plant	903,004	-	-	(903,004)	-	-
Transportation	420,548	1,851	88,693	(330,004)	-	-
	<u>3,023,771</u>	<u>1,851</u>	<u>96,916</u>	<u>(2,925,004)</u>	<u>-</u>	<u>-</u>
Long-term debt interest	586,872	-	-	(586,872)	-	-
Other expenditures:						
AEA flowthrough	520,901	-	520,901	-	-	-
Depreciation(unallocated)*	487,921	-	-	(487,921)	-	-
	<u>1,008,822</u>	<u>-</u>	<u>520,901</u>	<u>(487,921)</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>15,708,695</u>	<u>1,914,726</u>	<u>1,273,953</u>	<u>(12,520,016)</u>	<u>-</u>	<u>-</u>
Business Type activities:						
Instruction:						
Regular	91,535	-	-	-	(91,535)	-
Support services:						
Administration	4,658	-	-	-	(4,658)	-
Operation and maintenance of plant	3,963	-	-	-	(3,963)	-
	<u>8,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,621)</u>	<u>-</u>
Non-instructional programs:						
Nutrition services	565,649	296,503	310,620	-	41,474	41,474
Total business type activities	<u>665,805</u>	<u>296,503</u>	<u>310,620</u>	<u>-</u>	<u>(58,682)</u>	<u>-</u>
Total primary government	\$ <u>16,374,500</u>	<u>2,211,229</u>	<u>1,584,573</u>	<u>(12,520,016)</u>	<u>(58,682)</u>	<u>(12,578,698)</u>
Total component unit	\$ <u>261,305</u>	<u>-</u>	<u>310,534</u>	<u>-</u>	<u>-</u>	<u>49,229</u>
General revenues						
Property tax levied for:						
General purposes				\$ 5,982,464	-	5,982,464
Capital outlay				166,187	-	166,187
Income surtax				601,540	-	601,540
Statewide sales, service and use tax				1,036,632	-	1,036,632
Unrestricted state grants				5,512,827	-	5,512,827
Nonspecific program federal grants				189,422	-	189,422
Unrestricted investment earnings				3,711	29	3,740
Realized gain on investments				-	-	39,067
Unrealized loss on investments				-	-	(145,583)
Other general revenues				256,465	10,554	267,019
Total general revenues and transfers				<u>13,749,248</u>	<u>10,583</u>	<u>13,759,831</u>
Changes in net assets				1,229,232	(48,099)	1,181,133
Net assets beginning of year				8,782,138	73,030	8,855,168
Net assets end of year				\$ <u>10,011,370</u>	<u>24,931</u>	<u>10,036,301</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	Debt			Total
	General	Service	Nonmajor	
Assets				
Cash and pooled investments:	\$ 1,473,861	1,422,875	967,985	3,864,721
Receivables:				
Property tax:				
Delinquent	65,580	-	5,074	70,654
Succeeding year	5,380,376	-	829,060	6,209,436
Income surtax	609,415	-	-	609,415
Accounts	7,410	-	80	7,490
Due from other governments	665,195	-	164,542	829,737
Due from other funds	250,000	-	1,203	251,203
Total Assets	\$ 8,451,837	1,422,875	1,967,944	11,842,656
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 3,867	-	250,000	253,867
Accounts payable	166,655	604,764	3,882	775,301
Salaries and benefits payable	119,146	-	-	119,146
Retainage payable	-	-	10,000	10,000
Due to other government	8,337	-	-	8,337
Deferred revenue:				
Succeeding year property tax	5,380,376	-	829,060	6,209,436
Income surtax	609,415	-	-	609,415
Total Liabilities	6,287,796	604,764	1,092,942	7,985,502
Fund balances:				
Restricted for:				
Categorical funding	431,021	-	-	431,021
Management levy purposes	-	-	525,062	525,062
Student activities	-	-	174,694	174,694
School infrastructure	-	-	362,103	362,103
Debt service	-	818,111	-	818,111
Unassigned:				
General	1,733,020	-	-	1,733,020
Student activities	-	-	(14,985)	(14,985)
Physical plant and equipment	-	-	(171,872)	(171,872)
Total fund balances	2,164,041	818,111	875,002	3,857,154
Total Liabilities and Fund Balances	\$ 8,451,837	1,422,875	1,967,944	11,842,656

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances of governmental funds(page 20)	\$ 3,857,154
 <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 the governmental funds.	12,952,476
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	1,394,908
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	609,415
Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore are not reported in governmental funds.	<u>(8,802,583)</u>
Net assets of governmental activities(page 18)	<u><u>\$ 10,011,370</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	Debt			Total
	General	Service	Nonmajor	
REVENUES:				
Local sources:				
Local tax	\$ 6,228,109	-	1,503,686	7,731,795
Tuition	1,469,617	-	-	1,469,617
Other	330,661	227	407,622	738,510
State sources	6,439,232	-	-	6,439,232
Federal sources	503,745	-	-	503,745
Total revenues	<u>14,971,364</u>	<u>227</u>	<u>1,911,308</u>	<u>16,882,899</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	5,454,134	-	120,431	5,574,565
Special	2,907,082	-	-	2,907,082
Other	1,808,961	-	371,555	2,180,516
	<u>10,170,177</u>	<u>-</u>	<u>491,986</u>	<u>10,662,163</u>
Support services:				
Student	272,130	-	7,518	279,648
Instructional staff	287,971	-	885	288,856
Administration	1,080,133	-	8,642	1,088,775
Operation and maintenance of plant	1,252,692	-	257,697	1,510,389
Transportation	490,577	-	-	490,577
	<u>3,383,503</u>	<u>-</u>	<u>274,742</u>	<u>3,658,245</u>
Capital outlay	-	-	22,500	22,500
Long-term debt:				
Principal	-	795,000	-	795,000
Interest and fiscal charges	-	622,191	-	622,191
	<u>-</u>	<u>1,417,191</u>	<u>-</u>	<u>1,417,191</u>
Other expenditures:				
AEA flowthrough	520,901	-	-	520,901
Total expenditures	<u>14,074,581</u>	<u>1,417,191</u>	<u>789,228</u>	<u>16,281,000</u>
Excess(Deficiency) of revenues over(under) expenditures	896,783	(1,416,964)	1,122,080	601,899
Other financing sources(uses):				
Sale of equipment	11,294	-	-	11,294
Transfers in	-	790,932	-	790,932
Transfers out	-	-	(790,932)	(790,932)
Total other financing sources(uses)	<u>11,294</u>	<u>790,932</u>	<u>(790,932)</u>	<u>11,294</u>
Net change in fund balances	908,077	(626,032)	331,148	613,193
Fund balance beginning of year	<u>1,255,964</u>	<u>1,444,143</u>	<u>543,854</u>	<u>3,243,961</u>
Fund balance end of year	<u>\$ 2,164,041</u>	<u>818,111</u>	<u>875,002</u>	<u>3,857,154</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA 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, 2012

Net change in fund balances - total governmental funds(page 22) \$ 613,193

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

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

Capital expenditures	\$ 841,493	
Depreciation expense	(633,772)	
Loss on disposal of assets	<u>(3,065)</u>	204,656

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 795,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 35,319

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 55,028

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (434,250)

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 fund.

Early retirement	\$ 117,424	
Other postemployment benefits	<u>(157,138)</u>	<u>(39,714)</u>

Changes in net assets of governmental activities(page 19) \$ 1,229,232

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School			Self-Funded	Flex	Total
	Nutrition	Preschool	Total	Insurance	Benefit	
Assets						
Cash and cash equivalents	\$ 12,240	-	12,240	1,595,479	20,765	1,616,244
Accounts receivable	18,622	-	18,622	-	-	-
Due from other funds	-	-	-	2,664	-	2,664
Inventories	15,380	-	15,380	-	-	-
Capital assets, net of accumulated depreciation	67,833	-	67,833	-	-	-
Total Assets	114,075	-	114,075	1,598,143	20,765	1,618,908
Liabilities						
Current liabilities:						
Warrants issued over bank balance	-	69,856	69,856	-	-	-
Accounts payable	176	135	311	-	-	-
Salaries and benefits payable	981	-	981	-	-	-
Unearned revenue	7,380	-	7,380	-	-	-
Incurred but not reported	-	-	-	224,000	-	224,000
Total current liabilities	8,537	69,991	78,528	224,000	-	224,000
Long-term liabilities:						
Net OPEB liability	8,315	2,301	10,616	-	-	-
Total long-term liabilities	8,315	2,301	10,616	-	-	-
Total Liabilities	16,852	72,292	89,144	224,000	-	224,000
Net Assets						
Invested in capital assets	67,833	-	67,833	-	-	-
Unrestricted	29,390	(72,292)	(42,902)	1,374,143	20,765	1,394,908
Total Net Assets	\$ 97,223	(72,292)	24,931	1,374,143	20,765	1,394,908

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School			Self-Funded	Flex	Total
	Nutrition	Preschool	Total	Insurance	Benefit	
OPERATING REVENUE:						
Local sources:						
Charges for services	\$ 296,503	-	296,503	-	-	-
Miscellaneous	1,279	9,275	10,554	1,783,242	61,471	1,844,713
TOTAL OPERATING REVENUES	297,782	9,275	307,057	1,783,242	61,471	1,844,713
OPERATING EXPENSES:						
Instructional:						
Regular:						
Salaries	-	58,903	58,903	-	-	-
Benefits	-	22,238	22,238	-	-	-
Supplies	-	10,394	10,394	-	-	-
	-	91,535	91,535	-	-	-
Support services:						
Administration:						
Benefits	-	-	-	1,868,849	-	1,868,849
Services	4,658	-	4,658	352,048	62,307	414,355
Operation and maintenance of plant:						
Services	3,963	-	3,963	-	-	-
	8,621	-	8,621	2,220,897	62,307	2,283,204
Non-instructional programs:						
Food service operations:						
Salaries	162,143	-	162,143	-	-	-
Benefits	71,261	-	71,261	-	-	-
Services	433	-	433	-	-	-
Supplies	323,261	-	323,261	-	-	-
Depreciation	7,786	-	7,786	-	-	-
Other	765	-	765	-	-	-
	565,649	-	565,649	-	-	-
TOTAL OPERATING EXPENSES	574,270	91,535	665,805	2,220,897	62,307	2,283,204
OPERATING LOSS	(276,488)	(82,260)	(358,748)	(437,655)	(836)	(438,491)
NON-OPERATING REVENUES:						
Interest	2	27	29	4,239	2	4,241
State sources	5,901	10,124	16,025	-	-	-
Federal sources	294,595	-	294,595	-	-	-
TOTAL NON-OPERATING REVENUES	300,498	10,151	310,649	4,239	2	4,241
Change in net assets	24,010	(72,109)	(48,099)	(433,416)	(834)	(434,250)
Net assets beginning of year	73,213	(183)	73,030	1,807,559	21,599	1,829,158
Net assets end of year	\$ 97,223	(72,292)	24,931	1,374,143	20,765	1,394,908

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	Business Type Activities:			Governmental Activities		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
Cash flows from operating activities:						
Cash received from sale of lunches and breakfasts	\$ 286,885	-	286,885	-	-	-
Cash received from miscellaneous operating activities	1,279	9,335	10,614	1,783,242	61,471	1,844,713
Cash payments to employees for services	(229,772)	(79,886)	(309,658)	(1,794,849)	(62,307)	(1,857,156)
Cash payments to suppliers for goods or services	(297,716)	(15,756)	(313,472)	(352,048)	-	(352,048)
Net cash used in operating activities	(239,324)	(86,307)	(325,631)	(363,655)	(836)	(364,491)
Cash flows from non-capital financing activities:						
Borrowings from the General Fund	-	-	-	(2,664)	-	(2,664)
State grants received	5,901	10,124	16,025	-	-	-
Federal grants received	258,153	-	258,153	-	-	-
Net cash provided by(used in) non-capital financing activities	264,054	10,124	274,178	(2,664)	-	(2,664)
Cash flows from investing activities:						
Interest on investments	2	27	29	4,239	2	4,241
Cash flows from capital financing activities:						
Purchase of assets	(18,462)	-	(18,462)	-	-	-
Net increase(decrease) in cash and cash equivalents	6,270	(76,156)	(69,886)	(362,080)	(834)	(362,914)
Cash and cash equivalents at beginning of year	5,970	6,300	12,270	1,957,559	21,599	1,979,158
Cash and cash equivalents at end of year	\$ 12,240	(69,856)	(57,616)	1,595,479	20,765	1,616,244
Reconciliation of operating loss to net cash used in operating activities:						
Operating loss	\$ (276,488)	(82,260)	(358,748)	(437,655)	(836)	(438,491)
Adjustments to reconcile operating loss to net cash used in operating activities:						
Commodities consumed	36,442	-	36,442	-	-	-
Depreciation	7,786	-	7,786	-	-	-
Increase in inventories	(1,254)	-	(1,254)	-	-	-
Decrease(Increase) in accounts receivable	(4,724)	60	(4,664)	-	-	-
Increase(Decrease) in accounts payable	176	(5,362)	(5,186)	-	-	-
Increase in salaries and benefits payable	981	-	981	-	-	-
Increase in incurred but not reported	-	-	-	74,000	-	74,000
Decrease in unearned revenue	(4,894)	-	(4,894)	-	-	-
Increase in other postemployment benefits payable	2,651	1,255	3,906	-	-	-
Net cash used in operating activities	\$ (239,324)	(86,307)	(325,631)	(363,655)	(836)	(364,491)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received \$36,442 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 2,772
TOTAL ASSETS	<u>\$ 2,772</u>
LIABILITIES	
Due to other groups	\$ 2,772
TOTAL LIABILITIES	<u>\$ 2,772</u>

SEE NOTES TO FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Algona Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

These financial statements present the Algona Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Algona Community School Foundation was created to financially support the Algona Community School system and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a component unit in these financial statements with the year ending December 31, 2011.

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 Kossuth County 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 nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary 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. Invested in capital assets, net of related debt is also increased by the unused bond proceeds used for capital construction.

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 nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

The District reports the following nonmajor propriety funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise, Preschool Fund, the Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for preschool operations of the District. The Internal Service, Self-Funded Insurance Fund is used to account for the District's self-funded health insurance plan. The Internal Service, Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

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 does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary funds 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
Intangibles	75,000
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more
Machinery and equipment	5-12 years

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

Due to Other Governments - Due to other governments represents amounts due to the State of Iowa, local educational agencies, and other governments.

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.

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. During the year ended June 30, 2012, expenditures exceeded the amounts budgeted in the instruction, non-instructional programs, and other expenditures functional areas and in total.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2012 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, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,502 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 790,932

The transfer from the Capital Projects Fund to the Debt Service Fund was to pay interest on the District's revenue bond indebtedness.

(4) Due From and Due to Other Funds

At June 30, 2012 the interfund receivable and payable consisted of the following:

Receivable Fund	Payable Fund	Amount
	Capital Projects: Physical Plant and Equipment Levy	\$ 250,000
General Fund		
Capital Projects: Statewide Sales, Services and Use Tax	General Fund	88
Capital Projects: Physical Plant and Equipment Levy	General Fund	1,115
Internal Service Fund: Self-Funded Insurance	General Fund	2,664
Total		<u>\$ 253,867</u>

The Capital Projects: Physical Plant and Equipment Levy Fund is repaying the General Fund for money borrowed for cash flow purposes.

The General Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax for money deposited into the incorrect account.

The General Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for expenditures which were paid out of Capital Projects: Physical Plant and Equipment Levy Fund which should have been from the General Fund.

The General Fund is repaying the Internal Service Fund: Self-Funded Insurance Fund for IRS fees.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 129,357	18,462	-	147,819
Less accumulated depreciation	72,200	7,786	-	79,986
Business type activities capital assets, net	<u>\$ 57,157</u>	<u>10,676</u>	<u>-</u>	<u>67,833</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 87,674	-	-	87,674
Total capital assets not being depreciated	87,674	-	-	87,674
Capital assets being depreciated:				
Buildings	18,299,156	648,889	-	18,948,045
Land improvements	664,732	22,500	-	687,232
Machinery and equipment	3,879,642	170,104	3,999	4,045,747
Total capital assets being depreciated	22,843,530	841,493	3,999	23,681,024
Less accumulated depreciation for:				
Buildings	6,595,597	470,991	-	7,066,588
Land improvements	577,018	16,930	-	593,948
Machinery and equipment	3,010,769	145,851	934	3,155,686
Total accumulated depreciation	10,183,384	633,772	934	10,816,222
Total capital assets being depreciated, net	12,660,146	207,721	3,065	12,864,802
Governmental activities capital assets, net	\$ 12,747,820	207,721	3,065	12,952,476

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 32,527
Other		13,192
Support services:		
Administration services		6,091
Operation and maintenance of plant services		20,535
Transportation		73,506
		145,851
Unallocated depreciation		487,921
Total governmental activities depreciation expense		\$ 633,772
Business type activities:		
Food services		\$ 7,786

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 9,250,000	-	795,000	8,455,000	405,000
Early retirement	190,088	-	117,424	72,664	72,664
Net OPEB liability	117,781	157,138	-	274,919	-
Total	\$ 9,557,869	157,138	912,424	8,802,583	477,664

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 6,710	3,906	-	10,616	-

Revenue Bonds Payable

Details of the District's June 30, 2012 revenue bond indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond Issue of July 28, 2009		
		Principal	Interest	Total
2013	4.00	% \$ 405,000	392,028	797,028
2014	4.00	410,000	375,828	785,828
2015	4.00	420,000	324,383	744,383
2016	4.00	430,000	314,320	744,320
2017	4.00	435,000	342,628	777,628
2018-2022	4.00-4.50	2,360,000	1,386,425	3,746,425
2023-2027	4.63-5.00	2,750,000	746,228	3,496,228
2028-2029	5.00-5.20	1,245,000	97,454	1,342,454
Total		\$ 8,455,000	3,979,294	12,434,294

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,645,000 bonds issued July 28, 2009. The bonds were issued for the purpose of defraying a portion of the cost of construction for the new Middle School for the District. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 77 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$12,434,294. For the current year \$795,000 in principal and \$619,941 in interest was paid on the bonds and total statewide sales and services tax revenues were \$1,036,632.

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

- a) \$818,828 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

During the year ended June 30, 2008, the District offered a voluntary early retirement plan to its employees. Eligible employees must be a full-time teacher or administrator that will reach age 55 before June 30, 2009. Eligible employees must have completed fourteen years of full-time service to the District and must be currently under contract with 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 \$7,500 per year for a maximum of five years. Two equal payments are made on July 30 and January 30 of each year. Eligible employees have the option to use the early retirement incentive to pay premiums to remain on the District's health insurance plan.

Early retirement incentive benefits of \$117,424 were paid during the year ended June 30, 2012. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund early retirement.

(7) 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 207 active and 12 retired members in the plan. Participants must be age 55 or older at retirement.

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, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 223,648
Interest on net OPEB obligation	3,469
Adjustment to annual required contribution	1,248
Annual OPEB cost	<u>228,365</u>
Contributions made	<u>(67,321)</u>
Increase in net OPEB obligation	161,044
Net OPEB obligation beginning of year	124,491
Net OPEB obligation end of year	<u>\$ 285,535</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. 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, 2012.

For the year ended June 30, 2012, the District contributed \$67,321 to the medical plan. 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, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 126,849	69.68%	\$ 103,306
2011	112,980	81.25%	124,491
2012	228,365	29.48%	285,535

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1,611,343, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,611,343. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,312,448, and the ratio of the UAAL to covered payroll was 19.4%. As of June 30, 2012, 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, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The health cost trend rate is 6% a year.

Mortality rates are from a modest table (light) was assumed.

Projected claim costs of the medical plan are \$606 per month for retirees and spouses less than 65. The implicit subsidy portion of UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) 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 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$679,688, \$555,313 and \$504,294, respectively, equal to the required contributions for each year.

(9) Risk Management

Algona 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.

(10) 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 \$520,901 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

Programs	Amount
Gifted and talented	\$ 53,077
LEP weighting	6,350
Model core curriculum	82,862
Market factor	8,697
Statewide voluntary preschool	280,035
Total	<u>\$ 431,021</u>

(12) Deficit Fund Balance/Net Assets

The District had deficit unrestricted net assets in the Enterprise: Preschool Fund of \$72,292 and total deficit unrestricted net assets in the Enterprise Funds of \$42,902. The District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund of \$14,985. The District had a deficit unassigned fund balance in the Capital Projects: Capital Projects: Physical Plant and Equipment Levy of \$171,872.

(13) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2012, the District exceeded its budget amount in the instruction, non-instructional programs and other expenditures functional areas and in total.

ALGONA COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 9,939,922	307,086	10,247,008	9,218,389	9,218,389	1,028,619
Intermediate sources	-	-	-	1,050	1,050	(1,050)
State sources	6,439,232	16,025	6,455,257	6,687,235	6,687,235	(231,978)
Federal sources	503,745	294,595	798,340	511,182	511,182	287,158
Total revenues	16,882,899	617,706	17,500,605	16,417,856	16,417,856	1,082,749
Expenditures/expenses:						
Instruction	10,662,163	91,535	10,753,698	10,511,780	10,511,780	(241,918)
Support services	3,658,245	8,621	3,666,866	3,723,477	3,723,477	56,611
Non-instructional programs	-	565,649	565,649	500,000	500,000	(65,649)
Other expenditures	1,960,592	-	1,960,592	1,395,793	1,395,793	(564,799)
Total expenditures/expenses	16,281,000	665,805	16,946,805	16,131,050	16,131,050	(815,755)
Excess(Deficiency) of revenues over(under) expenditures/expenses	601,899	(48,099)	553,800	286,806	286,806	266,994
Other financing sources(uses), net	11,294	-	11,294	1,000	1,000	10,294
Deficiency of revenues and other financing sources under expenditures/expenses and other financing uses	613,193	(48,099)	565,094	287,806	287,806	277,288
Balance beginning of year	3,243,961	73,030	3,316,991	4,136,591	4,136,591	(819,600)
Balance end of year	\$ 3,857,154	24,931	3,882,085	4,424,397	4,424,397	(542,312)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons 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 a 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 or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2012, expenditures in the instruction, non-instructional programs, and other expenditures functional areas and in total exceeded the amounts budgeted.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2008	\$ -	\$ 1,360,117	\$ 1,360,117	0.0%	\$ 6,545,082	20.8%
2011	July 1, 2008	-	1,360,117	1,360,117	0.0%	7,837,500	17.4%
2012	July 1, 2011	-	1,611,343	1,611,343	0.0%	8,312,448	19.4%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2011

	Algona Community School Foundation
ASSETS	
Cash and pooled investments	\$ 3,168,934
TOTAL ASSETS	3,168,934
LIABILITIES	-
NET ASSETS	
Restricted for investment	2,966,507
Unrestricted	202,427
NET ASSETS	\$ 3,168,934

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2011

	Algona Community School Foundation
Revenue:	
Contributions, gifts, grants and similar amounts	\$ 310,534
Interest	57,614
Unrealized loss on investments	(145,583)
Realized gain on investments	39,067
Total revenue	261,632
Expenses:	
Grants	10,977
Scholarships	207,927
Management	6,866
Accounting	14,800
Investment management fees	4,608
Advertising and promotion	8,755
Office	2,207
Insurance	216
Fundraising supplies	3,870
Foreign tax on dividends	586
Garrigan reimbursement	73
Dues	420
Total expenses	261,305
Excess of revenue over expenses	327
Net assets beginning of year	3,168,607
Net assets end of year	\$ 3,168,934

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total		
Assets					
Cash and pooled investments	\$ 521,586	163,511	685,097	282,888	967,985
Receivables:					
Property tax:					
Delinquent	3,473	-	3,473	1,601	5,074
Succeeding year	300,000	-	300,000	529,060	829,060
Accounts	-	80	80	-	80
Due from other governments	3	-	3	164,539	164,542
Due from other funds	-	-	-	1,203	1,203
Total Assets	\$ 825,062	163,591	988,653	979,291	1,967,944
Liabilities and Fund Balances					
Liabilities:					
Due to other funds	\$ -	-	-	250,000	250,000
Accounts payable	-	3,882	3,882	-	3,882
Retainage payable	-	-	-	10,000	10,000
Deferred revenue:					
Succeeding year property tax	300,000	-	300,000	529,060	829,060
Total liabilities	<u>300,000</u>	<u>3,882</u>	<u>303,882</u>	<u>789,060</u>	<u>1,092,942</u>
Fund balances:					
Restricted for:					
Management levy purposes	525,062	-	525,062	-	525,062
Student activities	-	174,694	174,694	-	174,694
School infrastructure	-	-	-	362,103	362,103
Unassigned:					
Student activities	-	(14,985)	(14,985)	-	(14,985)
Physical plant and equipment	-	-	-	(171,872)	(171,872)
Total fund balances	<u>525,062</u>	<u>159,709</u>	<u>684,771</u>	<u>190,231</u>	<u>875,002</u>
Liabilities and Fund Balances	\$ 825,062	163,591	988,653	979,291	1,967,944

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2012

	Special Revenue			Capital Projects	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total		
REVENUES:					
Local sources:					
Local tax	\$ 300,867	-	300,867	1,202,819	1,503,686
Other	15,828	370,288	386,116	21,506	407,622
TOTAL REVENUES	316,695	370,288	686,983	1,224,325	1,911,308
EXPENDITURES:					
Current:					
Instruction:					
Regular	120,431	-	120,431	-	120,431
Other	-	371,555	371,555	-	371,555
	120,431	371,555	491,986	-	491,986
Support services:					
Student	7,518	-	7,518	-	7,518
Instructional staff	-	-	-	885	885
Administration	7,631	-	7,631	1,011	8,642
Operation and maintenance of plant	170,085	-	170,085	87,612	257,697
Capital outlay	-	-	-	22,500	22,500
TOTAL EXPENDITURES	305,665	371,555	677,220	112,008	789,228
Excess(deficiency) of revenues over(under) expenditures	11,030	(1,267)	9,763	1,112,317	1,122,080
Other financing uses:					
Transfers out	-	-	-	(790,932)	(790,932)
Net change in fund balances	11,030	(1,267)	9,763	321,385	331,148
Fund balance beginning of year	514,032	160,976	675,008	(131,154)	543,854
Fund balance end of year	\$ 525,062	159,709	684,771	190,231	875,002

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 207,789	75,099	282,888
Receivables:			
Delinquent	-	1,601	1,601
Succeeding year	-	529,060	529,060
Due from other governments	164,226	313	164,539
Due from other funds	88	1,115	1,203
Total assets	\$ 372,103	607,188	979,291
Liabilities and fund balances			
Liabilities:			
Due to other funds	\$ -	250,000	250,000
Retainage payable	10,000	-	10,000
Deferred revenue			
Succeeding year property tax	-	529,060	529,060
Total liabilities	10,000	779,060	789,060
Fund balances:			
Restricted for school infrastructure	362,103	-	362,103
Unassigned	-	(171,872)	(171,872)
Total fund balances	362,103	(171,872)	190,231
Total liabilities and fund balances	\$ 372,103	607,188	979,291

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 1,036,632	166,187	1,202,819
Other	15	21,491	21,506
Total revenues	1,036,647	187,678	1,224,325
Expenditures:			
Current:			
Support services:			
Instructional staff	-	885	885
Adminstration	1,011	-	1,011
Operation and maintenance of plant	-	87,612	87,612
Capital outlay	-	22,500	22,500
Total expenditures	1,011	110,997	112,008
Excess of revenues over expenditures	1,035,636	76,681	1,112,317
Other financing uses:			
Transfer out	(790,932)	-	(790,932)
Net change in fund balances	244,704	76,681	321,385
Fund balances beginning of year	117,399	(248,553)	(131,154)
Fund balances end of year	\$ 362,103	(171,872)	190,231

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (8,898)	58,634	59,744	(10,008)
Concession equipment	428	500	2,342	(1,414)
Interest	35	153	188	-
Public broadcasting	614	100	112	602
Special advertising	27,737	21,707	14,872	34,572
MS boys baseball	2,022	-	-	2,022
MS-vocal music	12	166	235	(57)
MS-instrumental music	1,365	800	616	1,549
MS-vocal/band uniforms	1,549	108	527	1,130
MS-cheerleaders	472	-	472	-
MS-quiz bowl	724	405	-	1,129
MS-science fair	102	829	931	-
MS-student senate	1,491	783	77	2,197
MS-yearbook	-	3,288	2,894	394
HS drama/speech	6,474	10,400	9,870	7,004
HS-instrumental music	394	17,426	13,432	4,388
HS-vocal/band uniforms	(890)	1,433	1,509	(966)
HS swing choir & band	1,093	859	503	1,449
HS band tour	13,811	8,894	22,311	394
HS vocal tour	12,057	17,287	15,084	14,260
HS athletics general	22,136	28,100	14,563	35,673
HS cross country	-	1,879	1,879	-
HS boys basketball	-	7,274	7,274	-
HS boys football	-	12,410	12,410	-
HS baseball	-	9,168	11,190	(2,022)
HS boys track	-	4,102	4,102	-
HS boys golf	-	604	604	-
HS wrestling	-	2,265	2,265	-
HS girls basketball	-	5,040	5,040	-
HS volleyball	-	5,376	5,376	-
HS softball	-	4,823	4,823	-
HS girls track	-	1,681	1,681	-
HS girls golf	-	217	217	-
HS acedemics	4,248	1,422	5,029	641
HS-ACT-ELC	2,373	3,545	2,369	3,549
TNT	371	-	-	371
HS cheerleaders	3,643	3,068	2,882	3,829
Class of 2012	21	-	21	-
Class of 2013	1,429	1,538	2,967	-
Class of 2014	1,354	2,107	2,139	1,322
Class of 2015	951	-	-	951
Class of 2016	824	-	-	824
Class of 2017	288	-	-	288
HS drill team	172	13,948	11,413	2,707
FFA	17,251	54,088	71,138	201

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Construction club	139	-	-	139
Env. science	1,064	1,000	-	2,064
Hosa	1,045	2,191	2,693	543
MMH	2,518	525	602	2,441
HS mock trial/ACAD	(515)	2,069	1,239	315
Model UN	1,018	1,001	1,181	838
National honor society	106	1,616	1,538	184
Outdoor club	1,486	306	180	1,612
P.E. club	8,185	-	-	8,185
Peer helpers	1,432	155	245	1,342
Prom improvement	973	807	1,138	642
HS quiz bowl	2,003	545	675	1,873
HS spanish club	2,608	-	60	2,548
HS student senate	524	3,286	1,886	1,924
TV. productions	422	2,983	884	2,521
Weight lifting club	374	-	-	374
HS yearbook	5,731	17,648	15,319	8,060
HS special cross country	(234)	684	27	423
HS special swim team	5,323	2,557	3,997	3,883
HS special boys basketball	1,402	4,284	1,329	4,357
HS special football	4,415	5,284	9,054	645
HS special baseball	(485)	2,682	2,715	(518)
HS special boys track	214	291	409	96
HS special boys golf	1,167	371	77	1,461
HS special wrestling	972	206	651	527
HS special girls basketball	(1,092)	4,808	2,082	1,634
HS special volleyball	2,370	3,376	3,748	1,998
HS special softball	1,429	3,577	3,707	1,299
HS special girls track	(23)	1,609	996	590
HS special girls golf	752	-	22	730
Total	\$ 160,976	370,288	371,555	159,709

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 3,483	13,363	14,074	2,772
LIABILITIES				
Due to other groups	\$ 3,483	13,363	14,074	2,772

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Local sources:										
Local tax	\$ 7,731,795	7,579,132	6,968,941	6,592,594	5,497,239	5,469,034	5,614,630	5,742,171	5,725,990	5,161,361
Tuition	1,469,617	1,290,813	1,267,199	1,296,138	1,404,416	1,262,663	1,247,756	1,112,659	886,818	840,316
Other	738,510	817,267	739,104	746,318	771,663	734,547	720,612	649,007	689,877	560,056
Intermediate sources	-	-	-	-	1,050	1,050	1,050	-	-	-
State sources	6,439,232	6,161,284	5,157,985	5,913,874	5,632,742	5,375,888	5,447,395	5,285,230	5,335,106	5,512,326
Federal sources	503,745	535,527	1,341,271	297,727	314,753	370,835	487,067	676,384	427,455	323,790
Total	\$ 16,882,899	16,384,023	15,474,500	14,846,651	13,621,863	13,214,017	13,518,510	13,465,451	13,065,246	12,397,849
Expenditures:										
Instruction:										
Regular	\$ 5,574,565	5,207,081	4,823,820	4,831,081	5,263,175	5,608,779	4,965,295	4,920,243	5,123,535	4,831,378
Special	2,907,082	2,875,963	2,912,652	2,825,044	2,758,170	2,519,046	2,531,517	2,610,995	2,538,533	2,414,339
Other	2,180,516	2,354,773	2,191,078	1,888,804	1,776,378	1,376,050	1,591,941	1,526,829	1,344,987	1,245,368
Support services:										
Student	279,648	292,976	291,112	103,162	335,840	318,336	298,708	294,861	302,558	284,007
Instructional staff	288,856	384,501	249,453	283,131	209,754	221,585	317,399	207,896	283,626	241,899
Administration	1,088,775	987,512	995,206	1,026,874	1,214,120	1,106,860	1,167,238	1,092,163	935,202	886,629
Operation and maintenance of plant	1,510,389	2,057,503	1,264,561	1,356,167	1,186,106	1,220,355	1,282,805	1,043,524	941,734	905,488
Transportation	490,577	674,073	495,754	437,541	658,449	484,594	605,476	482,887	318,694	249,530
Non-instructional programs	-	-	-	-	-	-	-	-	17,800	8,432
Capital outlay	22,500	3,614,761	6,211,994	561,541	93,584	459,868	737,059	416,316	576,657	515,566
Long-term debt:										
Principal	795,000	395,000	-	-	-	-	-	-	600,000	24,180
Interest and fiscal charges	622,191	433,227	188,092	-	-	-	-	-	34,740	1,059
Other expenditures:										
AEA flowthrough	520,901	577,797	555,416	492,441	465,680	450,954	434,384	430,727	440,718	472,533
Total	\$ 16,281,000	19,855,167	20,179,138	13,805,786	13,961,256	13,766,427	13,931,822	13,026,441	13,458,784	12,080,408

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	\$ 52,710
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	241,885 *
			<u>294,595</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	<u>131,351</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 12	<u>59,794</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 12	<u>8,223</u>
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 11	<u>4,967</u>
EDUCATION JOBS FUND	84.410	FY 11	185,501
EDUCATION JOBS FUND	84.410	FY 12	3,921
			<u>189,422</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 12	<u>78,013</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>10,913</u>
TOTAL			<u>\$ 777,278</u>

* -Includes \$36,442 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Algona Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

To the Board of Education of the
Algona 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 Algona Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 5, 2013. 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 Algona 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 Algona Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 to II-E-12 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 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.

Algona Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Algona 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 Algona Community School District and other parties to whom Algona 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 Algona 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 5, 2013

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Independent Auditor's Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Program and Internal Control
over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Algona Community School District:

Compliance

We have audited the compliance of Algona Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Algona Community School District's major federal programs for the year ended June 30, 2012. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Algona Community School District's management. Our responsibility is to express an opinion on Algona Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Algona Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Algona Community School District's compliance with those requirements.

In our opinion, Algona Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Algona Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Algona Community School District and other parties to whom Algona 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.


NOLTE, CORNMAN & JOHNSON, P.C.

March 5, 2013

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No matters in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program were as follows:
- Clustered Programs:
- CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- Individual Program:
- CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing and bank reconciliations were being done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-12 Student Activity Fund Invoices - We noted instances of a check being written to vendors without an invoice or statement for supporting documentation.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice.

Response - We will make sure we receive an invoice before writing the checks in the future.

Conclusion - Response accepted.

II-C-12 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however we noted instances of purchase orders dated after the supplies had been ordered or received and we also noted transactions processed without purchase orders.

Recommendation - This procedure should be reviewed and necessary changes made so that all disbursements have a pre-numbered purchase order that is approved by the appropriate administrator before the ordering of supplies takes place.

Response - We will communicate to employees that purchase orders need to be completed and approved before a purchase can be made.

Conclusion - Response accepted.

II-D-12 Negative Lunch Account Balances - It was noted during the audit that the Nutrition Fund is carrying several significant negative student lunch account balances on the books.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. The District should try various collection techniques to collect the balances from the families before writing the balances off of the books. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - We are working on collecting funds from negative balances.

Conclusion - Response accepted.

II-E-12 Payments to Officials - We noted instances of checks being made payable to specific athletic officials, which were subsequently endorsed with that payee's name by another individual. These checks were then used to pay the substitute official. The current practice prohibits the Board from approving payment to specific officials and creates an impossible environment for accurate 1099 tax reporting.

Recommendation - The District should review its procedures in place for payments of officials. Pursuant to a valid contractual agreement between the school board and the officials, officials could be paid the night of the event, after services have been rendered. For non-contract officials or substitute officials, payments should be made after services have been rendered and audited and allowed similar to other vendor payments.

Response - If an official does not work a game, the check will be voided and a new check will be written and mailed to the official that did work.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the certified amounts in the instruction, non-instructional programs, and other expenditures functional areas and in total.

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

Response - We will monitor the budget and amend the areas that exceeded the limit.

Conclusion - Response accepted.

IV-B-12 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.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees for meals while traveling which lacked a detailed receipt. According to board policy #803.11, employees and officers using a credit card must submit a detailed receipt in addition to a credit card receipt when requesting reimbursement.

Recommendation - The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will work on getting paperwork for all credit card purchases.

Conclusion - Response accepted.

IV-D-12 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chris Gerhardt, Teacher Owns C&D Construction	Services	\$ 7,075
Zoe Fett Spouse	Official	\$ 345
Theresa Kuecker, High School Secretary Spouse owns Kuecker Landscaping	Services	\$ 5,040
Sandi Rodemeyer, Teacher Spouse	Official	\$ 585
Rodney Davis, Board Member Winter sports duty	Services	\$ 660
Paul and Theresa DeLange, Bus Drivers Owns Premier Choice	Fundraising items	\$ 45,296
Paul and Theresa DeLange, Bus Drivers Owns Premier Pizza	Pizza/Concession	\$ 8,024
Jan Struck, Building Secretary Spouse	Official	\$ 325
Rich Collision, Teacher Father	Official	\$ 73
Jay Limbaugh, Board Member Father owns Jacks's OK Tires	Purchased goods	\$ 3,014

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Chris Gerhardt and Paul and Theresa DeLange do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with son, spouse, father and mother of the District's employees and board members do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member Rodney Davis does not appear to be a conflict of interest.

IV-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was understated by 1 student.

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

Response - Our auditors will be contacting the Iowa Department of Education and the Department of Management to resolve this issue.

Conclusion - Response accepted.

IV-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-12 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.3 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 reports (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 117,399
Revenues:		
Sales tax revenues	\$ 1,036,632	
Other local revenues	15	1,036,647
		<u>1,154,046</u>
Expenditures/transfers out:		
Other	\$ 1,011	
Transfers to other funds:		
Debt service fund	790,932	791,943
		<u>791,943</u>
Ending balance		<u>\$ 362,103</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-12 Financial Condition - The District had deficit unrestricted net assets in the Enterprise: Preschool Fund of \$72,292 and total deficit unrestricted net assets in the Enterprise Funds of \$42,902. The District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund of \$14,985. The District had a deficit unassigned fund balance in the Capital Projects: Physical Plant and Equipment Levy of \$171,872.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit fund balances.

Response - The deficit will be corrected for the following year.

Conclusion - Response accepted.