

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

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-16
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Propriety Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-40
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
Supplementary Information:		
<u>Schedule</u>		
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	47
Nonmajor Governmental Funds:		
Combining Balance Sheet	3	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	50-51
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	52
Schedule of Expenditures of Federal Awards	7	53
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		54-55
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		56-57
Schedule of Findings and Questioned Costs		58-64

Creston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2011 Election)		
Rich Flynn	President	2013
Chad Briley	Vice President	2011
Kevin Scadden	Board Member	2013
Brian Strider	Board Member (Resigned April 2011)	2011
Tammy Kavanaugh	Board Member	2011
Rick Fyock	Board Member (Appointed April 2011)	2011
Board of Education (After September 2011 Election)		
Rick Fyock	President	2015
Galen Zumbach	Vice President	2013
Rich Flynn	Board Member	2013
Kevin Scadden	Board Member	2013
Ron Dunphy	Board Member	2015
School Officials		
Tim Hood	Superintendent	2012
Roy Stroud	Board Secretary/ Business Manager	2012
Pat Moeller	District Treasurer	2012
Gruhn Law Firm	Attorney	2012

*CRESTON 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
Creston 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 Creston Community School District, Creston, 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 Creston 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 28, 2013 on our consideration of Creston 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 and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 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 Creston Community School District's basic financial statements. We previously audited the financial statements for the previous eight years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, 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 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Creston 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 decreased from \$14,370,000 in fiscal 2011 to \$13,932,275 in fiscal 2012, while General Fund expenditures increased from \$13,738,764 in fiscal 2011 to \$14,367,697 in fiscal 2012. The District's General Fund balance decreased from \$2,218,861 in fiscal 2011 to a balance of \$1,783,439 in fiscal 2012, a 19.62% decrease from the prior year.
- The decrease in General Fund revenues was attributable to decreases in amounts received for tuition and federal source revenues. The increase in expenditures can be attributed to the increase in expenditures in the instructional and support services functions.

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 Creston 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 Creston 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 Creston 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 detail of various programs benefiting the District.

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

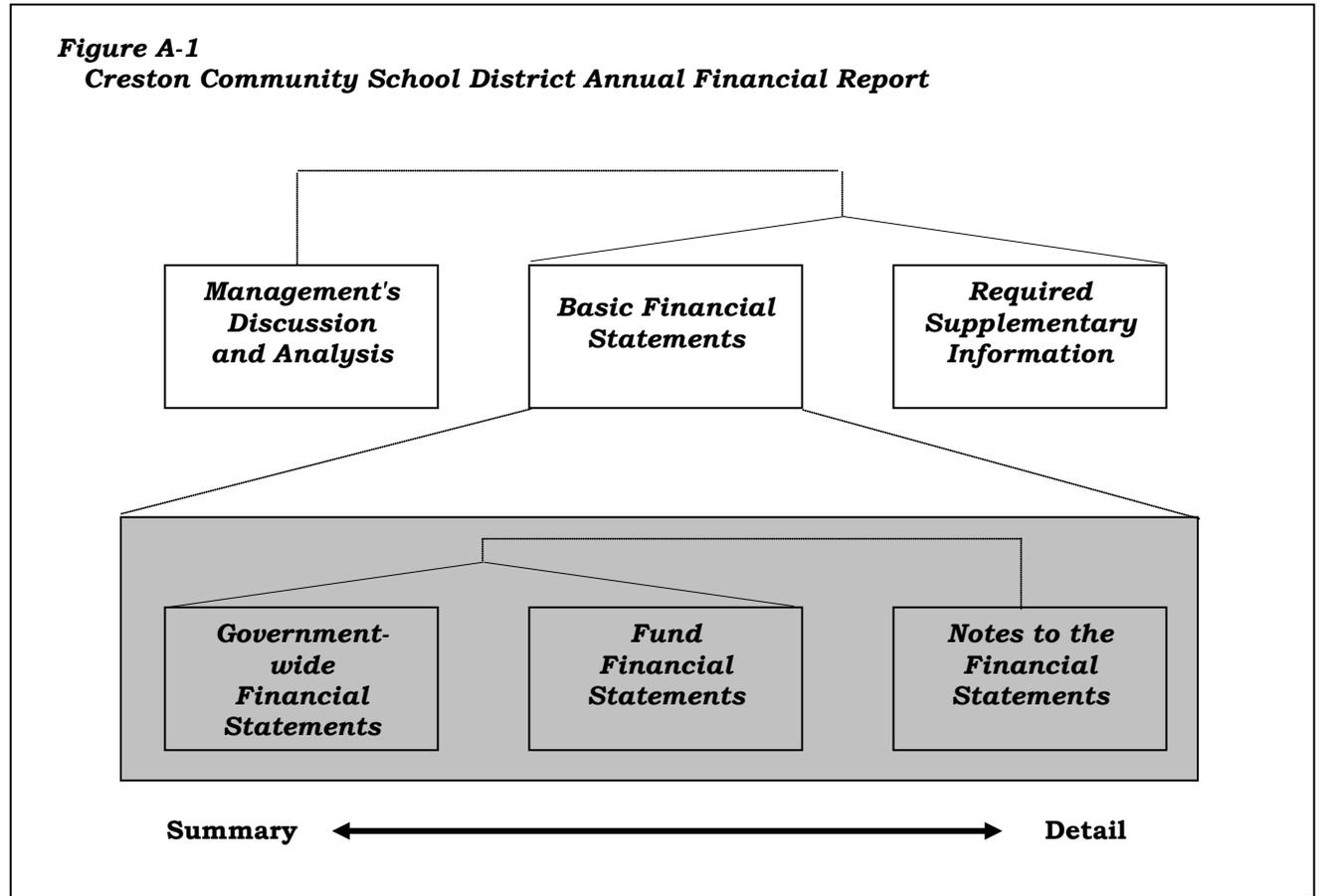


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
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
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

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 two kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

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 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	\$ 12,192,155	17,414,261	382,671	319,685	12,574,826	17,733,946	-29.09%
Capital assets	20,689,501	21,101,883	175,717	183,125	20,865,218	21,285,008	-1.97%
Total assets	32,881,656	38,516,144	558,388	502,810	33,440,044	39,018,954	-14.30%
Long-term obligations	11,105,000	17,874,049	-	682	11,105,000	17,874,731	-37.87%
Other liabilities	6,612,755	6,225,044	51,284	44,493	6,664,039	6,269,537	6.29%
Total liabilities	17,717,755	24,099,093	51,284	45,175	17,769,039	24,144,268	-26.40%
Net assets:							
Invested in capital assets, net of related debt	11,052,351	10,859,327	175,717	183,125	11,228,068	11,042,452	1.68%
Restricted	2,671,800	1,740,015	-	-	2,671,800	1,740,015	53.55%
Unrestricted	1,439,750	1,817,709	331,387	274,510	1,771,137	2,092,219	-15.35%
Total net assets	\$ 15,163,901	14,417,051	507,104	457,635	15,671,005	14,874,686	5.35%

The District's combined net assets increased by 5.35% or approximately \$796,319 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$931,785 or 53.55% over the prior year. The increase in restricted fund balance is mainly attributable to the increase in fund balance of the Capital Projects Accounts.

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 requirements - decreased \$321,082 or 15.35%. The decrease in unrestricted net assets was due mainly to the decrease in carryover balance for 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 in Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 963,499	1,007,892	300,606	304,742	1,264,105	1,312,634	-3.70%
Operating grants and contributions and restricted interest	1,639,135	2,240,770	507,344	454,504	2,146,479	2,695,274	-20.36%
Capital grants and contributions and restricted interest	-	29,151	-	-	-	29,151	-100.00%
General revenues:							
Local tax	5,047,696	4,919,147	-	-	5,047,696	4,919,147	2.61%
Statewide sales, services and use tax	1,306,799	1,124,135	-	-	1,306,799	1,124,135	16.25%
Unrestricted state grants	7,749,195	7,089,585	-	-	7,749,195	7,089,585	9.30%
Nonspecific program federal grants	4,235	436,826	-	-	4,235	436,826	-99.03%
Unrestricted investment earnings	34,077	27,750	402	621	34,479	28,371	21.53%
Other	235,053	332,160	-	3,148	235,053	335,308	-29.90%
Total revenues	16,979,689	17,207,416	808,352	763,015	17,788,041	17,970,431	-1.01%
Program expenses:							
Governmental activities:							
Instructional	10,045,988	9,362,111	-	-	10,045,988	9,362,111	7.30%
Support services	4,747,346	4,392,337	107,843	99,002	4,855,189	4,491,339	8.10%
Non-instructional programs	-	-	651,040	620,429	651,040	620,429	4.93%
Long-term debt interest	566,912	636,152	-	-	566,912	636,152	-10.88%
Other expenses	1,104,211	1,127,520	-	-	1,104,211	1,127,520	-2.07%
Total expenses	16,464,457	15,518,120	758,883	719,431	17,223,340	16,237,551	6.07%
Change in net assets before extraordinary item	515,232	1,689,296	49,469	43,584	564,701	1,732,880	-67.41%
Extraordinary item:							
Compensation for loss of capital assets	231,618	-	-	-	231,618	-	100.00%
Change in net assets	746,850	1,689,296	49,469	43,584	796,319	1,732,880	-54.05%
Net assets beginning of year	14,417,051	12,727,755	457,635	414,051	14,874,686	13,141,806	13.19%
Net assets end of year	\$ 15,163,901	14,417,051	507,104	457,635	15,671,005	14,874,686	5.35%

Local tax and unrestricted state grants account for 75.37% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.95% of the revenue from business type activities.

The District's total revenues were approximately \$17.79 million of which approximately \$16.98 million was for governmental activities and approximately \$0.81 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.01% decrease in revenues and a 6.07% increase in expenses. Local tax increased \$128,549 to fund expenditures. The increase in expenses is related to the increases in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$16,979,689 and expenses were \$16,464,457.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, long-term debt interest and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

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	\$ 10,045,988	9,362,111	6.81%	8,003,333	6,759,725	15.54%
Support services	4,747,346	4,392,337	7.48%	4,691,706	4,283,159	8.71%
Long-term debt	566,912	636,152	-12.21%	566,912	636,152	-12.21%
Other expenses	1,104,211	1,127,520	-2.11%	599,872	561,271	6.43%
Totals	<u>\$ 16,464,457</u>	<u>15,518,120</u>	<u>5.75%</u>	<u>13,861,823</u>	<u>12,240,307</u>	<u>11.70%</u>

- The cost financed by users of the District's programs was \$963,499.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,639,135.
- The net cost of governmental activities was financed with \$5,047,696 in local tax, \$1,306,799 in statewide sales, services and use tax, \$7,749,195 in unrestricted state grants, \$4,235 in nonspecific program federal grants, \$34,077 in interest income and \$235,053 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$808,352 and expenses were \$758,883. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Creston 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 \$5,473,327, below last year's ending fund balances of \$11,177,754. The main reason for the decrease in combined fund balances can be attributed to the decrease in fund balance for the Debt Service Fund. This decrease was a result the District paying off the general obligation bonds dated May 1, 2002 with proceeds of the crossover refunding bond issuance completed in the previous year.

Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors. Decreases in tuition and federal revenues as compared to the previous year led to the decrease in revenues. The increase in expenditures can be attributed to the increase in expenditures in the instructional and support services functions. Revenues decreased \$437,725 and expenditures increased \$628,933 as compared to the previous year.
- The Capital Projects Accounts balance increased from a balance of \$1,221,397 at the beginning of the fiscal year 2012 to \$1,853,090. The increase was primarily the result increased revenues and decreased expenditures in the Capital Projects: Statewide Sales, Services and Use Tax Fund as compared to the previous year.
- The Debt Service Fund balance decreased during the year, from \$7,372,444 to \$1,456,000. This was the result of the District paying off the general obligation bonds dated May 1, 2002 with proceeds of the crossover refunding bond issuance completed in the previous year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$457,635 at June 30, 2011 to \$507,104 at June 30, 2012, representing an increase of 10.81%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$829,009 less than budgeted revenues, a variance of 4.45%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$20,865,218, 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 decrease of 1.97% from the previous year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$764,261.

The original cost of the District's capital assets was \$31,288,081. Governmental funds account for \$30,693,428 with \$594,653 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$738,982 at June 30, 2011, compared to \$154,130 reported at June 30, 2012. This decrease can be attributed to the District completing the replacement of the Early Childcare Center's roof. The amount of construction in progress at June 30, 2012 is for architect fees for the elementary and high school safe rooms.

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	\$ 155,965	155,965	-	-	155,965	155,965	0.00%
Construction in progress	154,130	738,982	-	-	154,130	738,982	100.00%
Buildings	19,470,311	19,195,480	-	-	19,470,311	19,195,480	1.43%
Land improvements	555,755	615,316	-	-	555,755	615,316	-9.68%
Machinery and equipment	353,340	396,140	175,717	183,125	529,057	579,265	-8.67%
Total	\$ 20,689,501	21,101,883	175,717	183,125	20,865,218	21,285,008	-1.97%

Long-Term Debt

At June 30, 2012, the District had long-term debt outstanding of \$11,105,000 in general obligation bonds, capital loan notes and other long-term debt. This represents a decrease of approximately 37.87% from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$10,600,000 at June 30, 2012.

The District had total outstanding capital loan notes payable of \$505,000 at June 30, 2012.

Figure A-7
Outstanding Long-Term Obligations

	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
General obligation bonds	\$ 10,600,000	16,955,000	-	-	10,600,000	16,955,000	-37.48%
Capital loan notes	505,000	660,000	-	-	505,000	660,000	-23.48%
Early retirement	-	190,731	-	-	-	190,731	-100.00%
Net OPEB liability	-	68,318	-	682	-	69,000	-100.00%
Total	\$ 11,105,000	17,874,049	-	682	11,105,000	17,874,731	-37.87%

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:

- On April 14, 2012, the District was hit by an F-2 tornado that caused considerable damage to the Creston Community School District, Green Hills AEA, Southwestern Community College, the hospital and several houses in the community.
- The District sustained damage to the elementary/middle school, the track/track facilities lighting, several small out buildings and the complete loss of the bus barn. The District is fully insured with a \$1,000 deductible through EMC. The District received a declaration from the Chief Administrator of the AEA that allowed the District to proceed quickly with

cleanup and repairs to damaged areas. As repairs were being made to damaged areas, the District took the opportunity to make improvements rather than repair only. Examples of improvements include a better type of roof on the elementary/middle school, substantial work to the foundation of the track, a new bus barn that will include enough space to house the small vehicle fleet and energy efficient lighting where possible.

- As a result of the F-2 tornado, the Green Hills AEA building was completely destroyed. Through a concerted effort by the Creston Community School District and the AEA, a partnership was formed so that the AEA's new office space will be in the District's existing Burton R. Jones facility. This is a wonderful partnership which will allow the District and the AEA to efficiently share technology, facilities and services.
- During fiscal year 2013, the District will receive a grant from the Federal Emergency Management Agency to offset construction costs of safe rooms that will be located at the elementary/middle school and the high school.

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 Roy Stroud, District Business Manager, Creston Community School District, 801 N Elm, Creston, Iowa, 50801.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments:			
U.S. Treasury Securities on deposit with escrow agent	\$ 1,467,850	-	1,467,850
Other	4,370,589	349,101	4,719,690
Receivables:			
Property tax:			
Delinquent	105,804	-	105,804
Succeeding year	5,055,721	-	5,055,721
Income surtax	121,408	-	121,408
Accounts	91,233	-	91,233
Due from other governments	954,259	4,637	958,896
Inventories	-	28,679	28,679
Net OPEB asset	25,291	254	25,545
Capital assets, net of accumulated depreciation	20,689,501	175,717	20,865,218
Total Assets	32,881,656	558,388	33,440,044
Liabilities			
Excess of warrants issued over bank balance	108,448	-	108,448
Accounts payable	60,716	775	61,491
Salaries and benefits payable	1,347,162	43,297	1,390,459
Interest payable	40,708	-	40,708
Deferred revenue:			
Succeeding year property tax	5,055,721	-	5,055,721
Unearned revenue	-	7,212	7,212
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	2,290,000	-	2,290,000
Capital loan notes	160,000	-	160,000
Portion due after one year:			
General obligation bonds	8,310,000	-	8,310,000
Capital loan notes	345,000	-	345,000
Total Liabilities	17,717,755	51,284	17,769,039
Net Assets			
Invested in capital assets, net of related debt	11,052,351	175,717	11,228,068
Restricted for:			
Categorical funding	328,810	-	328,810
Management levy purposes	249,359	-	249,359
Student activities	131,439	-	131,439
School infrastructure	1,518,946	-	1,518,946
Physical plant and equipment	443,246	-	443,246
Unrestricted	1,439,750	331,387	1,771,137
Total Net Assets	\$ 15,163,901	507,104	15,671,005

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON 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	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 6,149,100	418,546	97,944	(5,632,610)	-	(5,632,610)
Special	2,204,142	184,577	179,076	(1,840,489)	-	(1,840,489)
Other	1,692,746	319,081	843,431	(530,234)	-	(530,234)
	<u>10,045,988</u>	<u>922,204</u>	<u>1,120,451</u>	<u>(8,003,333)</u>	<u>-</u>	<u>(8,003,333)</u>
Support services:						
Student	384,557	-	-	(384,557)	-	(384,557)
Instructional staff	529,838	2,865	-	(526,973)	-	(526,973)
Administration	1,619,631	-	-	(1,619,631)	-	(1,619,631)
Operation and maintenance of plant	1,612,095	19,915	-	(1,592,180)	-	(1,592,180)
Transportation	601,225	18,515	14,345	(568,365)	-	(568,365)
	<u>4,747,346</u>	<u>41,295</u>	<u>14,345</u>	<u>(4,691,706)</u>	<u>-</u>	<u>(4,691,706)</u>
Long-term debt interest	566,912	-	-	(566,912)	-	(566,912)
Other expenses:						
AEA flowthrough	504,339	-	504,339	-	-	-
Depreciation(unallocated)*	599,872	-	-	(599,872)	-	(599,872)
	<u>1,104,211</u>	<u>-</u>	<u>504,339</u>	<u>(599,872)</u>	<u>-</u>	<u>(599,872)</u>
Total governmental activities	16,464,457	963,499	1,639,135	(13,861,823)	-	(13,861,823)
Business Type activities:						
Support services:						
Administration	81,735	-	-	-	(81,735)	(81,735)
Operation and maintenance of plant	26,108	-	-	-	(26,108)	(26,108)
Total support services	<u>107,843</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(107,843)</u>	<u>(107,843)</u>
Non-instructional programs:						
Nutrition services	651,040	300,606	507,344	-	156,910	156,910
Total business type activities	<u>758,883</u>	<u>300,606</u>	<u>507,344</u>	<u>-</u>	<u>49,067</u>	<u>49,067</u>
Total	\$ 17,223,340	1,264,105	2,146,479	(13,861,823)	49,067	(13,812,756)
General Revenues:						
Property tax levied for:						
General purposes				\$ 4,065,145	-	4,065,145
Debt service				639,805	-	639,805
Capital outlay				210,094	-	210,094
Income surtax				132,652	-	132,652
Statewide sales, services and use tax				1,306,799	-	1,306,799
Unrestricted state grants				7,749,195	-	7,749,195
Nonspecific program federal grants				4,235	-	4,235
Unrestricted investment earnings				34,077	402	34,479
Other				235,053	-	235,053
Total general revenues				<u>14,377,055</u>	<u>402</u>	<u>14,377,457</u>
Changes in net assets before extraordinary item				515,232	49,469	564,701
Extraordinary item(Note 13):						
Compensation for loss of capital assets				231,618	-	231,618
Changes in net assets				746,850	49,469	796,319
Net assets beginning of year				14,417,051	457,635	14,874,686
Net assets end of year				<u>\$ 15,163,901</u>	<u>507,104</u>	<u>15,671,005</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments:					
U.S. Treasury Securities on deposit					
with escrow agent	\$ -	-	1,467,850	-	1,467,850
Other	2,348,500	1,645,910	-	376,097	4,370,507
Receivables:					
Property tax:					
Delinquent	82,897	4,225	12,866	5,816	105,804
Succeeding year	3,967,786	219,955	792,980	75,000	5,055,721
Income surtax	-	121,408	-	-	121,408
Accounts	7,501	-	-	83,732	91,233
Due from other governments	751,304	202,955	-	-	954,259
Total Assets	\$ 7,157,988	2,194,453	2,273,696	540,645	12,166,782
Liabilities and Fund Balances					
Liabilities:					
Excess of warrants issued over bank balance	\$ -	-	24,716	83,732	108,448
Accounts payable	59,601	-	-	1,115	60,716
Salaries and benefits payable	1,347,162	-	-	-	1,347,162
Deferred revenue:					
Succeeding year property tax	3,967,786	219,955	792,980	75,000	5,055,721
Income surtax	-	121,408	-	-	121,408
Total liabilities	5,374,549	341,363	817,696	159,847	6,693,455
Fund balances:					
Restricted for:					
Categorical funding	328,810	-	-	-	328,810
Debt service	-	-	1,456,000	-	1,456,000
Management levy purposes	-	-	-	249,359	249,359
Student activities	-	-	-	131,439	131,439
School infrastructure	-	1,409,844	-	-	1,409,844
Physical plant and equipment	-	443,246	-	-	443,246
Assigned for special purposes	45,496	-	-	-	45,496
Unassigned	1,409,133	-	-	-	1,409,133
Total fund balances	1,783,439	1,853,090	1,456,000	380,798	5,473,327
Total Liabilities and Fund Balances	\$ 7,157,988	2,194,453	2,273,696	540,645	12,166,782

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON 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)	\$ 5,473,327
 <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.	20,689,501
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(40,708)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	121,408
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	82
Other postemployment benefits are not yet available to finance expenditures of the current year fiscal period.	25,291
Long-term liabilities, including bonds payable, and capital loan notes payable are not due and payable in the current period and, are not reported as liabilities in the governmental funds.	<u>(11,105,000)</u>
Net assets of governmental activities(page 18)	<u><u>\$ 15,163,901</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 3,798,635	1,644,495	639,805	266,510	6,349,445
Tuition	527,400	-	-	-	527,400
Other	419,848	2,318	30,014	479,538	931,718
State sources	8,782,008	116	354	153	8,782,631
Federal sources	383,445	-	-	-	383,445
Total revenues	13,911,336	1,646,929	670,173	746,201	16,974,639
EXPENDITURES:					
Current:					
Instruction:					
Regular	6,146,144	-	-	119,524	6,265,668
Special	2,251,495	-	-	-	2,251,495
Other	1,222,448	-	-	476,680	1,699,128
	9,620,087	-	-	596,204	10,216,291
Support services:					
Student	388,698	-	-	-	388,698
Instructional staff	539,013	-	-	-	539,013
Administration	1,539,371	-	9,097	20,744	1,569,212
Operation and maintenance of plant	1,204,373	12,546	-	321,184	1,538,103
Transportation	571,816	-	-	15,346	587,162
	4,243,271	12,546	9,097	357,274	4,622,188
Non-instructional programs:					
Food service operations	-	-	-	8,595	8,595
Capital outlay	-	429,960	-	-	429,960
Long-term debt:					
Principal	-	-	8,025,000	-	8,025,000
Interest and fiscal charges	-	-	631,145	-	631,145
	-	-	8,656,145	-	8,656,145
Other expenditures:					
AEA flowthrough	504,339	-	-	-	504,339
Total expenditures	14,367,697	442,506	8,665,242	962,073	24,437,518
Excess(Deficiency) of revenues over(under) expenditures	(456,361)	1,204,423	(7,995,069)	(215,872)	(7,462,879)
Other financing sources(uses):					
Transfer in	-	-	572,730	-	572,730
Transfer out	-	(572,730)	-	-	(572,730)
Compensation for loss of capital assets	-	-	-	231,618	231,618
Insurance proceeds	20,939	-	-	-	20,939
Crossover refunding bond issuance	-	-	1,515,000	-	1,515,000
Discount on bond issuance	-	-	(9,105)	-	(9,105)
Total other financing sources(uses)	20,939	(572,730)	2,078,625	231,618	1,758,452
Net change in fund balances	(435,422)	631,693	(5,916,444)	15,746	(5,704,427)
Fund balance beginning of year	2,218,861	1,221,397	7,372,444	365,052	11,177,754
Fund balance end of year	\$ 1,783,439	1,853,090	1,456,000	380,798	5,473,327

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON 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) \$ (5,704,427)

**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. Depreciation expense, capital outlay expenditures and loss on asset disposal in the current year are as follows:

Capital outlays	\$ 440,776	
Depreciation expense	(727,751)	
Loss on asset disposal	(125,407)	(412,382)

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

Issued	(1,515,000)	
Repaid	8,025,000	6,510,000

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. 64,233

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 5,050

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 36

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	190,731	
Other postemployment benefits	93,609	284,340

Changes in net assets of governmental activities(page 19) \$ 746,850

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
Assets		
Current assets:		
Cash and pooled investments	\$ 349,101	82
Due from other governments	4,637	-
Inventories	28,679	-
Total current assets	382,417	82
Non-current assets:		
Capital assets:		
Net OPEB asset	254	-
Machinery and equipment, net of accumulated depreciation	175,717	-
Total non-current assets	175,971	-
Total Assets	558,388	82
Liabilities		
Current liabilities:		
Accounts payable	775	-
Salaries and benefits payable	43,297	-
Unearned revenue	7,212	-
Total current liabilities	51,284	-
Net Assets		
Invested in capital assets	175,717	-
Unrestricted	331,387	82
Total Net Assets	\$ 507,104	82

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 300,606	-
Miscellaneous	-	638,596
TOTAL OPERATING REVENUES	<u>300,606</u>	<u>638,596</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Salaries	61,924	-
Benefits	18,430	-
Services	1,381	-
	<u>81,735</u>	<u>-</u>
Operation and maintenance of plant:		
Services	26,108	-
Total support services	<u>107,843</u>	<u>-</u>
Non-instructional programs:		
Food service operations:		
Salaries	204,755	-
Benefits	42,699	-
Supplies	366,280	-
Other	796	-
Depreciation	36,510	-
	<u>651,040</u>	<u>-</u>
Other enterprise operations:		
Benefits	-	638,596
Total non-instructional programs	<u>651,040</u>	<u>638,596</u>
TOTAL OPERATING EXPENSES	<u>758,883</u>	<u>638,596</u>
OPERATING LOSS	<u>(458,277)</u>	<u>-</u>
NON-OPERATING REVENUES:		
Interest	402	36
State sources	7,667	-
Federal sources	499,677	-
TOTAL NON-OPERATING REVENUES	<u>507,746</u>	<u>36</u>
Change in net assets	49,469	36
Net assets at beginning of year	<u>457,635</u>	<u>46</u>
Net assets end of year	<u>\$ 507,104</u>	<u>82</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: School Nutrition	Governmental Activities: Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 300,535	-
Cash received from miscellaneous operating activities	-	638,596
Cash payments to employees for services	(321,906)	(638,596)
Cash payments to suppliers for goods or services	(364,453)	-
Net cash used in operating activities	<u>(385,824)</u>	<u>-</u>
Cash flows from non-capital financing activities:		
State grants received	7,667	-
Federal grants received	463,755	-
Net cash provided by non-capital financing activities	<u>471,422</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	402	36
Cash flows from capital financing activities:		
Purchase of assets	(29,102)	-
Net increase in cash and cash equivalents	56,898	36
Cash and cash equivalents at beginning of year	292,203	46
Cash and cash equivalents at end of year	<u>\$ 349,101</u>	<u>82</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (458,277)	-
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	35,770	-
Depreciation	36,510	-
Increase in inventories	(5,682)	-
Increase in accounts payable	24	-
Increase in salaries and benefits payable	6,838	-
Decrease in unearned revenue	(71)	-
Decrease in other postemployment benefits	(936)	-
Net cash used in operating activities	<u>\$ (385,824)</u>	<u>-</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$35,770.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Creston Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Creston Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold and Union 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.

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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of principal and interest on the District's general long-term debt.

The District reports the following non-major proprietary fund:

The District's non-major proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District reports the following other proprietary fund:

The Internal Service Fund is used to account for flex spending benefits received by District employees.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from 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 Balances

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

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

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

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

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

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

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

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.

Assigned - Amounts the Board intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

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

(2) Cash and Pooled Investments

The District's deposits at June 30, 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 and the Treasurer of the State of Iowa; 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 \$1,510,199 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust were both rated AAA by Standard and 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>
	Capital Projects:	
	Statewide Sales, Services	
Debt Service	and Use Tax	\$ 395,000
	Capital Projects:	
	Physical Plant and	
Debt Service	Equipment Levy	177,730
Total		<u>\$ 572,730</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed to pay principal and interest on the District's general obligation bond indebtedness.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed to pay principal and interest on the District's capital loan note indebtedness.

(4) 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
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 155,965	-	-	155,965
Construction in progress	738,982	333,146	917,998	154,130
Total capital assets not being depreciated	894,947	333,146	917,998	310,095
Capital assets being depreciated:				
Buildings	26,389,325	917,998	363,885	26,943,438
Land improvements	1,452,782	-	255,420	1,197,362
Machinery and equipment	2,175,439	107,630	40,536	2,242,533
Total capital assets being depreciated	30,017,546	1,025,628	659,841	30,383,333
Less accumulated depreciation for:				
Buildings	7,193,845	556,289	277,007	7,473,127
Land improvements	837,466	43,583	239,442	641,607
Machinery and equipment	1,779,299	127,879	17,985	1,889,193
Total accumulated depreciation	9,810,610	727,751	534,434	10,003,927
Total capital assets being depreciated, net	20,206,936	297,877	125,407	20,379,406
Governmental activities capital assets, net	\$ 21,101,883	631,023	1,043,405	20,689,501
Business type activities:				
Machinery and equipment	\$ 565,551	29,102	-	594,653
Less accumulated depreciation	382,426	36,510	-	418,936
Business type activities capital assets, net	\$ 183,125	(7,408)	-	175,717
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 30,721
Other				7,417
Support services:				
Instructional staff				7,450
Administration				5,278
Operation and maintenance of plant				8,843
Transportation				68,170
Unallocated depreciation				127,879
Total governmental activities depreciation expense				599,872
Business type activities:				
Food services				\$ 36,510

(5) 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:					
General obligation	\$ 16,955,000	1,515,000	7,870,000	10,600,000	2,290,000
Capital loan notes	660,000	-	155,000	505,000	160,000
Early retirement	190,731	-	190,731	-	-
Net OPEB liability	68,318	-	68,318	-	-
Total	\$ 17,874,049	1,515,000	8,284,049	11,105,000	2,450,000
Business Type Activities:					
Net OPEB liability	\$ 682	-	682	-	-

General Obligation

On June 7, 2012 the District issued \$1,515,000 of general obligation refunding bonds, with interest rates ranging from 0.45% to 2.10%, for a crossover refunding of a portion of the general obligation bonds issued May 1, 2003. The District entered into an escrow agreement whereby the proceeds from the general obligation refunding bonds were converted into U.S. Securities. The securities were placed in an escrow account for the express purpose of paying the \$1,540,000 of principal of the bonds dated May 1, 2003 when they become callable on May 1, 2013 and the interest from November 1, 2012 to and including May 1, 2013. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished. The present value savings of the crossover refunding is \$173,366.

Details of the District's June 30, 2012 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 7, 2012			Bond Issue of May 1, 2003			Bond Issue of September 1, 2010			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2013	0.45 %	\$ -	19,818	3.75 %	\$ 90,000	65,670	1.00 %	\$ 685,000	161,310	775,000	246,798	1,021,798
2014	0.45	115,000	22,020	3.90	95,000	62,295	1.20	700,000	154,460	910,000	238,775	1,148,775
2015	0.60	120,000	21,503	4.00	100,000	58,590	1.50	710,000	146,060	930,000	226,153	1,156,153
2016	0.75	115,000	20,783	4.10	100,000	54,590	1.80	730,000	135,410	945,000	210,783	1,155,783
2017	1.00	120,000	19,920	4.20	110,000	50,490	2.10	735,000	122,270	965,000	192,680	1,157,680
2018-2022	1.15-2.00	605,000	77,514	4.30-4.40	595,000	179,850	2.25-3.00	3,985,000	341,715	5,185,000	599,079	5,784,079
2023	2.10	440,000	9,240	4.40	450,000	19,800	-	-	-	890,000	29,040	919,040
Total		\$ 1,515,000	190,798		\$ 1,540,000	491,285		\$ 7,545,000	1,061,225	\$ 10,600,000	1,743,308	12,343,308

Capital Loan Notes

Details of the District's June 30, 2012 Capital Loan Notes indebtedness, which will be paid from the Capital Projects: Physical Plant and Equipment Levy Fund, is as follows:

Year Ending June 30,	Note Issue of March 1, 2004				
	Interest Rates	Principal	Interest	Total	
2013	3.30	% \$ 160,000	17,270	177,270	
2014	3.45	170,000	11,990	181,990	
2015	3.50	175,000	6,125	181,125	
	Total	\$ 505,000	35,385	540,385	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed thirteen years of service to the District and meet the rule of "88". Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives for each eligible employee is equal to a percentage of the employee's basic yearly salary and one days pay of that salary for each two days of unused accumulated sick leave not to exceed a maximum benefit of \$20,000. The early retirement liability is now recorded based on actuarial valuations and is reflected in the Other Postemployment Benefits Plan discussed in Note 7 to the financial statements.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual 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 \$698,371, \$575,723, and \$575,879 respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 222 active and 38 retired members in the plan. Employees must be age 55 or older at retirement and have thirteen or more years of service to the District.

The medical insurance benefit for retirees is based on the retiree's final salary in effect upon retirement. The benefit paid by the District is to pay the retirees' health insurance on the District's medical plan. The benefit is for employees who are at least age 55 and have at least thirteen years of service to the Creston Community School District or age plus years of service is greater than 88. The maximum benefit to be paid to any one retiree is \$20,000. This benefit is shown as an explicit subsidy and an OPEB liability.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield. 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 of the District (ARC), 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 June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 153,000
Interest on net OPEB obligation	3,105
Adjustment to annual required contribution	(2,650)
Annual OPEB cost	<u>153,455</u>
Contributions made	<u>(248,000)</u>
Increase in net OPEB obligation	(94,545)
Net OPEB obligation - beginning of year	<u>69,000</u>
Net OPEB obligation - end of year	<u><u>\$ (25,545)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2012.

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	\$ 139,435	59.53%	\$ 145,435
2011	153,565	149.77%	69,000
2012	153,455	161.61%	(25,545)

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1.380 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.380 million. The covered payroll (annual payroll of active employees covered by the plan) was \$5.834 million, and the ratio of the UAAL to the covered payroll was 23.7%. 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 healthcare 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 the 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 that are 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 July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$584 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental, life and long-term disability.

District contributions to ISEBA for the year ended June 30, 2012, were \$1,129,425.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$504,339 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.

(10) Categorical Funding

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

Program	Amount
Limited english proficiency	\$ 4,644
Weighted at-risk programs	20,204
Talented and gifted	124,193
Teacher salary supplement	67,342
Model core curriculum	45,686
Statewide voluntary preschool	40,551
Professional development	26,190
Total	<u>\$ 328,810</u>

(11) Construction Commitment

The District has entered into architectural contracts for the construction of a safe room for the elementary and high school buildings. The total of the contracts is \$238,800. As of June 30, 2012, costs of \$134,130 had been incurred against the contracts. The balance of \$104,670 remaining at June 30, 2012 will be paid as work on the project progresses.

(12) Extraordinary Item

During the year ended June 30, 2012, the District received compensation for loss of capital assets due to tornado damage that occurred in April 2012. As a result, the District suffered damage to several District buildings, the athletic complex and the complete loss of a bus barn.

As work progresses to repair or replace capital assets due to tornado damage, the District will be receiving additional compensation for loss of capital assets in the next fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

CRESTON 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	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 7,808,563	301,008	8,109,571	8,215,700	8,215,700	(106,129)
Intermediate sources	-	-	-	800	800	(800)
State sources	8,782,631	7,667	8,790,298	8,980,500	8,980,500	(190,202)
Federal sources	383,445	499,677	883,122	1,415,000	1,415,000	(531,878)
Total revenues	16,974,639	808,352	17,782,991	18,612,000	18,612,000	(829,009)
Expenditures/Expenses:						
Instruction	10,216,291	-	10,216,291	11,905,405	11,905,405	1,689,114
Support services	4,622,188	107,843	4,730,031	6,731,369	6,731,369	2,001,338
Non-instructional programs	8,595	651,040	659,635	1,042,669	1,042,669	383,034
Other expenditures	9,590,444	-	9,590,444	11,165,287	11,165,287	1,574,843
Total expenditures/expenses	24,437,518	758,883	25,196,401	30,844,730	30,844,730	5,648,329
Excess(Deficiency) of revenues over(under) expenditures/expenses	(7,462,879)	49,469	(7,413,410)	(12,232,730)	(12,232,730)	4,819,320
Other financing sources, net	1,758,452	-	1,758,452	628,335	628,335	1,130,117
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(5,704,427)	49,469	(5,654,958)	(11,604,395)	(11,604,395)	5,949,437
Balance beginning of year	11,177,754	457,635	11,635,389	11,604,395	11,604,395	30,994
Balance end of year	\$ 5,473,327	507,104	5,980,431	-	-	5,980,431

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON 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 the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund 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.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial				Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
		Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Covered			
2010	July 1, 2008	\$ -	\$1,047	\$1,047	0.0%	\$5,622	18.6%	
2011	July 1, 2010	\$ -	\$1,380	\$1,380	0.0%	\$5,703	24.2%	
2012	July 1, 2010	\$ -	\$1,380	\$1,380	0.0%	\$5,834	23.7%	

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.

SUPPLEMENTARY INFORMATION

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

	Special Revenue			
	Management Levy	Student Activity	Disaster Recovery (Tornado Damage)	Total
Assets				
Cash and pooled investments	\$ 243,543	132,554	-	376,097
Receivables:				
Property tax:				
Delinquent	5,816	-	-	5,816
Succeeding year	75,000	-	-	75,000
Accounts	-	-	83,732	83,732
Total Assets	\$ 324,359	132,554	83,732	540,645
Liabilities and Fund Balances				
Liabilities:				
Excess of warrants issued over bank balance	\$ -	-	83,732	83,732
Accounts payable	-	1,115	-	1,115
Deferred revenue:				
Succeeding year property tax	75,000	-	-	75,000
Total liabilities	75,000	1,115	83,732	159,847
Fund balances:				
Restricted for:				
Management levy purposes	249,359	-	-	249,359
Student activities	-	131,439	-	131,439
Total fund balances	249,359	131,439	-	380,798
Total Liabilities and Fund Balances	\$ 324,359	132,554	83,732	540,645

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue			Total
	Manage- ment Levy	Student Activity	Disaster Recovery (Tornado Damage)	
REVENUES:				
Local sources:				
Local tax	\$ 266,510	-	-	266,510
Other	70	479,468	-	479,538
State sources	153	-	-	153
Total revenues	266,733	479,468	-	746,201
EXPENDITURES:				
Current:				
Instruction:				
Regular	119,524	-	-	119,524
Other	-	476,680	-	476,680
Support services:				
Administration	20,744	-	-	20,744
Operation and maintenance of plant	104,912	-	216,272	321,184
Transportation	-	-	15,346	15,346
Non-instructional programs:				
Food service operations	8,595	-	-	8,595
Total expenditures	253,775	476,680	231,618	962,073
Excess(Deficiency) of revenues over(under) expenditures	12,958	2,788	(231,618)	(215,872)
Other financing sources:				
Compensation for loss of capital assets	-	-	231,618	231,618
Net change in fund balances	12,958	2,788	-	15,746
Fund balance beginning of year	236,401	128,651	-	365,052
Fund balance end of year	\$ 249,359	131,439	-	380,798

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON 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	\$ 1,206,889	439,021	1,645,910
Receivables:			
Property tax:			
Delinquent	-	4,225	4,225
Succeeding year	-	219,955	219,955
Income surtax	-	121,408	121,408
Due from other governments	202,955	-	202,955
Total Assets	\$ 1,409,844	784,609	2,194,453
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	219,955	219,955
Income surtax	-	121,408	121,408
Total liabilities	-	341,363	341,363
Fund balances:			
Restricted for:			
School infrastructure	1,409,844	-	1,409,844
Physical plant and equipment	-	443,246	443,246
Total fund balances	1,409,844	443,246	1,853,090
Total Liabilities and Fund Balances	\$ 1,409,844	784,609	2,194,453

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON 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	\$ 1,306,799	337,696	1,644,495
Other	1,318	1,000	2,318
State sources	-	116	116
Total revenues	<u>1,308,117</u>	<u>338,812</u>	<u>1,646,929</u>
EXPENDITURES:			
Current:			
Support services:			
Operation and maintenance of plant	-	12,546	12,546
Capital outlay	334,859	95,101	429,960
Total expenditures	<u>334,859</u>	<u>107,647</u>	<u>442,506</u>
Deficiency of revenues under expenditures	973,258	231,165	1,204,423
Other financing uses:			
Transfer out	(395,000)	(177,730)	(572,730)
Net change in fund balances	578,258	53,435	631,693
Fund balances beginning of year	<u>831,586</u>	<u>389,811</u>	<u>1,221,397</u>
Fund balances end of year	<u>\$ 1,409,844</u>	<u>443,246</u>	<u>1,853,090</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON 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	Intrafund Transfers	Balance End of Year
HS general athletics	\$ 20,479	20,881	22,882	4,261	22,739
Bowling	-	2,725	2,643	-	82
Boys basketball	2,966	10,188	7,694	(4,000)	1,460
MS boys basketball	-	1,025	875	-	150
Football	2,336	14,808	9,952	(6,000)	1,192
MS football	1,140	803	1,772	-	171
HS boys soccer	1	476	1,985	1,508	-
Baseball	(1,476)	2,294	9,006	9,609	1,421
Boys track	1	3,642	4,511	943	75
MS boys track	-	811	426	-	385
Boys cross country	138	6,057	6,018	-	177
Boys tennis	-	220	796	576	-
Boys golf	1	60	2,304	2,243	-
Wrestling	10,807	6,410	21,106	3,937	48
MS wrestling	988	1,911	2,474	-	425
Girls basketball	1,132	8,012	5,854	-	3,290
MS girls basketball	-	687	1,629	942	-
Volleyball	(1,172)	7,529	5,528	734	1,563
MS volleyball	7	1,183	1,159	-	31
HS girls soccer	2	668	2,460	1,790	-
Softball	(136)	6,748	6,296	-	316
Girls track	(93)	2,097	4,123	2,369	250
MS girls track	-	-	738	738	-
Girls tennis	6	-	-	-	6
Girls golf	16	70	80	-	6
Annual	10,266	11,556	14,113	-	7,709
Cheerleaders	117	6,187	4,742	-	1,562
Class of 2012	2,876	60	702	(2,234)	-
Class of 2013	450	9,255	6,569	-	3,136
Class of 2014	447	-	81	-	366
Class of 2015	481	-	90	-	391
Class of 2016	36	-	-	-	36
FFA	13,268	46,944	45,120	-	15,092
FCCLA	2,352	-	-	-	2,352
FBLA	396	22,596	21,526	-	1,466
Interest	-	52	-	(52)	-
Marching panthers	(187)	15,315	19,073	4,986	1,041
Panther guard	2	3,157	3,062	-	97
National honor society	2	-	549	547	-
Panther boys basketball	2,405	1,690	2,520	-	1,575

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
Panther girls basketball	786	24,180	22,826	(300)	1,840
Panther boys golf	57	791	169	-	679
Panther boys cross country	4,672	5,153	2,915	-	6,910
Panther boys tennis	1,999	1,126	3,400	276	1
Panther boys track	612	-	13	-	599
Panther football	(388)	40,962	38,345	-	2,229
Panther girls track	162	4,227	3,381	-	1,008
Panther girls tennis	21	248	-	-	269
Panther singers	-	7,142	6,875	-	267
Panther softball	1,465	3,221	2,626	-	2,060
Panther volleyball	4,512	5,218	7,126	-	2,604
Panther weight club	250	-	-	-	250
Panther wrestlers	3,872	10,649	10,780	-	3,741
Panther speech club	-	337	330	-	7
Student activity	-	24,515	635	(23,880)	-
Student government	4,088	3,189	2,184	-	5,093
Unity project	200	-	-	-	200
Panther baseball	-	2,940	2,680	-	260
MS panther football	655	4,571	4,142	-	1,084
MS student government	4,711	4,545	3,440	-	5,816
Cheerleaders	-	65	-	-	65
HS weight room	1,603	-	766	-	837
MS marching panthers	3,627	15,437	14,945	-	4,119
Entrepreneur	876	-	-	-	876
Panther desktop publishing	943	29,052	30,194	300	101
Special olympics	2,164	306	506	-	1,964
JDC	246	126	50	-	322
Panther boys soccer	1	1,688	2,396	707	-
Panther girls soccer	13	2,431	2,398	-	46
Thespians	6,135	1,695	3,139	-	4,691
IJAG	224	396	-	-	620
Diversity club	124	-	-	-	124
Panther peppers	9,668	14,901	16,133	-	8,436
Big sister/little sister	1,510	-	-	-	1,510
Spanish club	1	-	-	-	1
MS singers	3,788	2,243	1,831	-	4,200
Clearing account	-	51,997	51,997	-	-
Total	\$ 128,651	479,468	476,680	-	131,439

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

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 6,349,445	6,043,357	5,873,843	5,690,210	5,151,891	5,205,282	4,650,977	4,675,468	4,586,430
Tuition	527,400	725,932	685,794	589,692	779,123	846,712	531,819	417,718	544,102
Other	931,718	832,614	721,231	904,072	990,841	1,054,229	1,035,187	992,047	697,535
State sources	8,782,631	8,286,487	7,244,174	8,038,068	7,990,501	7,452,259	6,916,779	6,564,307	6,252,892
Federal sources	383,445	1,319,101	1,973,099	962,992	651,278	811,268	1,162,023	801,998	1,644,172
Total	\$ 16,974,639	17,207,491	16,498,141	16,185,034	15,563,634	15,369,750	14,296,785	13,451,538	13,725,131
Expenditures:									
Instruction:									
Regular	\$ 6,265,668	6,101,506	5,999,181	6,100,713	5,342,920	5,483,982	4,926,797	4,492,302	4,566,081
Special	2,251,495	1,798,482	1,855,851	1,890,125	2,059,834	2,130,654	1,719,109	1,689,582	2,434,811
Other	1,699,128	1,667,314	1,541,470	1,446,614	1,400,158	945,375	1,413,132	1,479,975	1,173,527
Support services:									
Student	388,698	377,289	355,840	347,350	342,721	326,932	331,017	318,548	264,642
Instructional staff	539,013	556,433	382,365	290,957	504,741	344,642	292,024	419,125	274,942
Administration	1,569,212	1,552,544	1,510,851	1,489,523	1,555,199	1,511,141	1,423,425	1,214,908	940,627
Operation and maintenance of plant	1,538,103	1,353,191	1,284,522	1,452,699	1,179,766	1,217,476	1,235,867	1,178,766	710,303
Transportation	587,162	529,542	558,706	535,600	610,722	520,583	561,262	355,322	359,042
Central support	-	-	-	-	-	-	-	-	105,806
Non-instructional programs:									
Food service operations	8,595	-	-	7,183	7,182	-	2,868	-	-
Capital outlay	429,960	1,175,843	1,107,768	135,130	653,336	621,617	1,376,643	2,746,755	10,856,929
Long-term debt:									
Principal	8,025,000	760,000	725,000	690,000	660,000	635,000	610,000	460,000	445,000
Interest and fiscal charges	631,145	615,335	540,742	570,143	601,483	625,658	647,865	673,912	644,876
Other expenditures:									
AEA flow-through	504,339	566,249	562,973	508,699	493,874	465,028	431,257	421,173	421,480
Total	\$ 24,437,518	17,053,728	16,425,269	15,464,736	15,411,936	14,828,088	14,971,266	15,450,368	23,198,066

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	\$ 126,578
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	364,982 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.556	FY 12	8,117
			<u>499,677</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	<u>231,309</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VIA)	84.369	FY 12	<u>7,166</u>
EDUCATION JOBS FUND	84.410	FY 12	<u>4,235</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 12	<u>77,161</u>
TOTAL			<u>\$ 819,548</u>

* - includes \$35,770 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Creston 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.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Creston 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 Creston 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 28, 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

The management of Creston Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Creston 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 an opinion on the effectiveness of Creston Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Creston 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 misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-B-12 to be material weaknesses.

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-C-12 through II-D-12 to be significant deficiencies.

Members American Institute & Iowa Society of Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creston 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.

Creston 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 Creston 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 Creston Community School District and other parties to whom Creston 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 Creston 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 28, 2013

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

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

To the Board of Education of
Creston Community School District

Compliance

We have audited the Creston Community School District's compliance 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 the Creston Community School District's major federal programs for the year ended June 30, 2012. The Creston 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 the Creston Community School District's management. Our responsibility is to express an opinion on the Creston 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 Creston 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 Creston Community School District's compliance with those requirements.

In our opinion, Creston Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Creston 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 Creston 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 Creston Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses.

A deficiency in the District's internal control over compliance exists when the design or operation of a control 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.

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

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 2013

CRESTON 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) Significant deficiencies and material weaknesses 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 material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Creston Community School District qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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, bank deposits and the posting of the cash receipts to the cash receipts journal were all 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 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited Inc. This training helps in providing instruction as well as promotes networking of other accounting personnel.

Necessary adjustments to be made for proper recognition of receivables and payables were not being completed accurately. Prior year receivables and payables were not removed from the financial accounting system thus creating overstatements in revenues and expenditures. The proper amounts to be accrued for receivables and payables were not done accurately. Adjustments for capital asset additions and deletions were not completed by the District until after the District's Certified Annual Report had been filed with the Iowa Department of Education.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every District. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

Response - The District will explore recommended additional training. In the future, the District will take more care in removing prior year receivables and payables and accrue the proper amounts for receivables and payables on the financial accounting system. Capital asset adjustments will be completed more timely in the future.

Conclusion - Response accepted.

II-C-12 Receipting Process - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting only after the event or fundraising drive is completed. When the money is turned into the office, the sponsors of the student organizations appear to not be maintaining supporting documentation for the money collected that could later be used for reconciliation purposes.

Recommendation - The District should review receipting procedures in place. When sponsors submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts.

Response - Administration will update the receipting process and focus on improving documentation of receipts.

Conclusion - Response accepted.

II-D-12 Improving Teacher Quality State Grants(Title IIA) - We noted during our audit, that it appeared the District failed to file the final report for Title IIA funding with the Iowa Department of Education. As a result, the District did not receive \$76,397.06 in funding for expenditures incurred by the District.

Recommendation - The District should contact the Iowa Department of Education to resolve this issue.

Response - The District has forwarded the necessary information requested by the Iowa Department of Education in an attempt to receive the Title IIA funding.

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 disbursements for the year ended June 30, 2012, did not exceed budgeted amounts.

IV-B-12 Questionable Disbursements - We noted during our audit that gift cards were purchased by the District and appeared to be given to students as prizes. Gift cards given to students for this purposes do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place and make necessary adjustments to comply with the Attorney General's opinion dated April 25, 1979.

Response - The District will no longer purchase gift cards to give to students as prizes.

Conclusion - Response accepted.

Clothing Purchases: We noted during our audit that the District purchased embroidered clothing for athletic coaches from the Student Activity Fund. Through conversation with District officials, it was indicated that the clothing purchased was intended to be part of a specialized uniform for "Coaches vs Cancer" event and other events held by the District. It was also stated that the coaches retain custody of the clothing after the event.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived.

If the intent of the clothing purchase is to be part of a specialized uniform for an event, it would appear inappropriate that the coaches retain possession of the clothing after the event since this gives the appearance that the clothing was purchased for the coaches for personal use. The District should request the return of the clothing after the event and issue the clothing to the coaches when another specialized event is to be held where the uniform is required. If the coaches keep the clothing, then the cost of the clothing should be included on the coaches' W-2.

The District should refrain from purchasing clothing for employees. The purchase of clothing for employees establishes a precedent which may be difficult to justify and/or administer fairly and consistently among other employees and student groups. A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing to District employees in lieu of using public funds.

Response - The District will refrain from purchasing clothing for employees from District funds. If the clothing is required by the District as a uniform, the District will request the clothing be returned to the District.

Conclusion - Response accepted.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chad Briley, Board Member Owns Briley Heating & Air Conditioning Inc.	Purchased services	\$461

The above transactions with the Board Member do not appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa.

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 overstated by 0.5.

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

Response - The District's auditor will contact the Iowa Department of Education and Department of Management to resolve this matter. The District has corrected its aid and levy to show the adjustment.

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; however we noted the following that caused material deficiencies in the amounts reported:

Prior year receivables and payables were not removed from the financial accounting system thus creating overstatements in revenues and expenditures. The proper amounts to be accrued for receivables and payables were not done accurately. Adjustments for capital asset additions and deletions were not completed by the District until after the District's Certified Annual Report had been filed with the Iowa Department of Education.

Recommendation - The District should review procedures in place when completing year end adjustments for the CAR. Members of the accounting staff should review each other's work and compare to the computer system generated financial statements before uploading the District's CAR to ensure all year end adjustments have been completed accurately.

Response - In the future, the District will have members of the accounting staff review each other's work so that year end adjustments are completed accurately before the District submits the CAR to the Iowa Department of Education.

Conclusion - Response accepted.

IV-K-12 Categorical Funding - No instances were noted of categorical funding being 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.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

Beginning balance		\$	831,586
Revenues:			
Sales tax revenues	\$	1,306,799	
Other local revenues		1,318	1,308,117
			<u>2,139,703</u>
Expenditures/transfers out:			
School infrastructure construction	\$	334,859	
Transfers to other funds:			
Debt service fund		395,000	729,859
			<u>729,859</u>
Ending balance		\$	<u>1,409,844</u>

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	<u>\$ 1.19547</u>	<u>\$ 395,000</u>

IV-M-12 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

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

Response - The District will follow the recommendation.

Conclusion - Response accepted.

IV-N-12 Alliant Branching Out Grant(Trees Forever) - We noted during our audit that the District's FFA received a Trees Forever Grant and recorded the proceeds from the grant in the Student Activity Fund. The following concerns arose during our audit relating to this grant:

- The District office was unable to provide a copy of the report filed to receive Trees Forever funds. It appears that all pertinent information related to this grant was not retained per District procedures, but rather by the grant writer who is a Board Member of the District. Chapter 291.6 of the Code of Iowa requires the District's Board Secretary to preserve and file all copies of pertinent paperwork related to the business of the District.
- In subsequent conversation with representatives of Trees Forever, we were told that the District had filed the proper reports with them claiming that all funds received by the District had been spent; however the District's general ledger shows an unspent balance of \$920.92. It would appear that expenditures for the grant are not being reported using the amounts from the District's general ledger.
- We noted that a check dated February 22, 2012 from Trees Forever for \$5,000 was not deposited by the District until May 23, 2012. We were unable to determine if the check was initially sent to the grant writer or the District and what caused the delay in depositing the check received. The delay in depositing receipts appears to identify a significant breakdown of controls relating to the receipting and depositing of District revenues.

Recommendation - The District should request that the Trees Forever grant writer provide copies of paperwork concerning the Trees Forever grant to the District to be in compliance with Chapter 291.6 of the Code of Iowa. In addition, the District should review the record retention requirement per Chapter 291.6 of the Code of Iowa to ensure records are maintained and retained by the District.

Response - The District will request documentation of the Trees Forever grant from the Board Member. Copies will be maintained in the District Office by the Board Secretary.

Conclusion - Response accepted.

Recommendation - The District should report grant expenditures according to what is recorded on the District's general ledger. The District may need to file an amended report for the expenditures reported on the grant. In addition, the District should review procedures in place to ensure all invoices related to the grant are properly coded.

Response - When the District has received all documentation of the grant, the District will assure that all reporting is done correctly.

Conclusion - Response accepted.

Recommendation - The District should review receipting procedures in place with regard to depositing revenue. The District should adopt procedures that require funds received be deposited in a timely manner.

Response - The District will make sure that any checks issued for the grant are directed to the District and not the grant writer.

Conclusion - Response accepted.