

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

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Denison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Rod Bradley	President	2013
Kris Rowedder	Vice President	2011
Larry Andersen	Board Member	2013
Les Lewis	Board Member	2013
Mark Johnson	Board Member	2011
<b>(After September 2011 Election)</b>		
Rod Bradley	President	2013
Kris Rowedder	Vice President	2015
Larry Andersen	Board Member	2013
Les Lewis	Board Member	2013
Mark Johnson	Board Member	2015
<b>School Officials</b>		
Mike Pardun	Superintendent	2012
Scott Larson	Business Manager	2012
Ruth Frazier	District Secretary	2012
Terry Prickett	District Treasurer	2012
Mundt, Franck and Schumacher	Attorney	2012

**Denison Community School District**

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Denison 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 Denison Community School District, Denison, 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 Denison 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 February 15, 2013 on our consideration of Denison 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 and the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7

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through 16 and 44 through 46 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 Denison Community School District's basic financial statements. We previously audited the financial statements for the previous seven years ended June 30, 2011 while another auditor previously audited the financial statements for the year ended June 30, 2004, (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report, and unqualified opinions were expressed on those financial statements. The supplemental information included in Schedules 1 through 10, 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.

February 15, 2013

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

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The Denison Community School District provides the 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 \$19,757,683 in fiscal 2011 to \$19,731,849 in fiscal 2012, while General Fund expenditures increased from \$18,675,620 in fiscal 2011 to \$19,560,059 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$2,672,554 in fiscal 2011 to a balance of \$2,844,344 in fiscal 2012, which is a 6.43% increase from the prior year.
- The slight decrease in General Fund revenues was attributable to a decrease in federal sources in fiscal 2012. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.
- The District's solvency ratio increased as compared to fiscal 2011. At June 30, 2011 the District's solvency ratio was 12.07% as compared to 13.99% at June 30, 2012.

### **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 Denison 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 Denison 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 Denison Community School District acts solely as an agent or custodial for the benefit of those outside of 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.

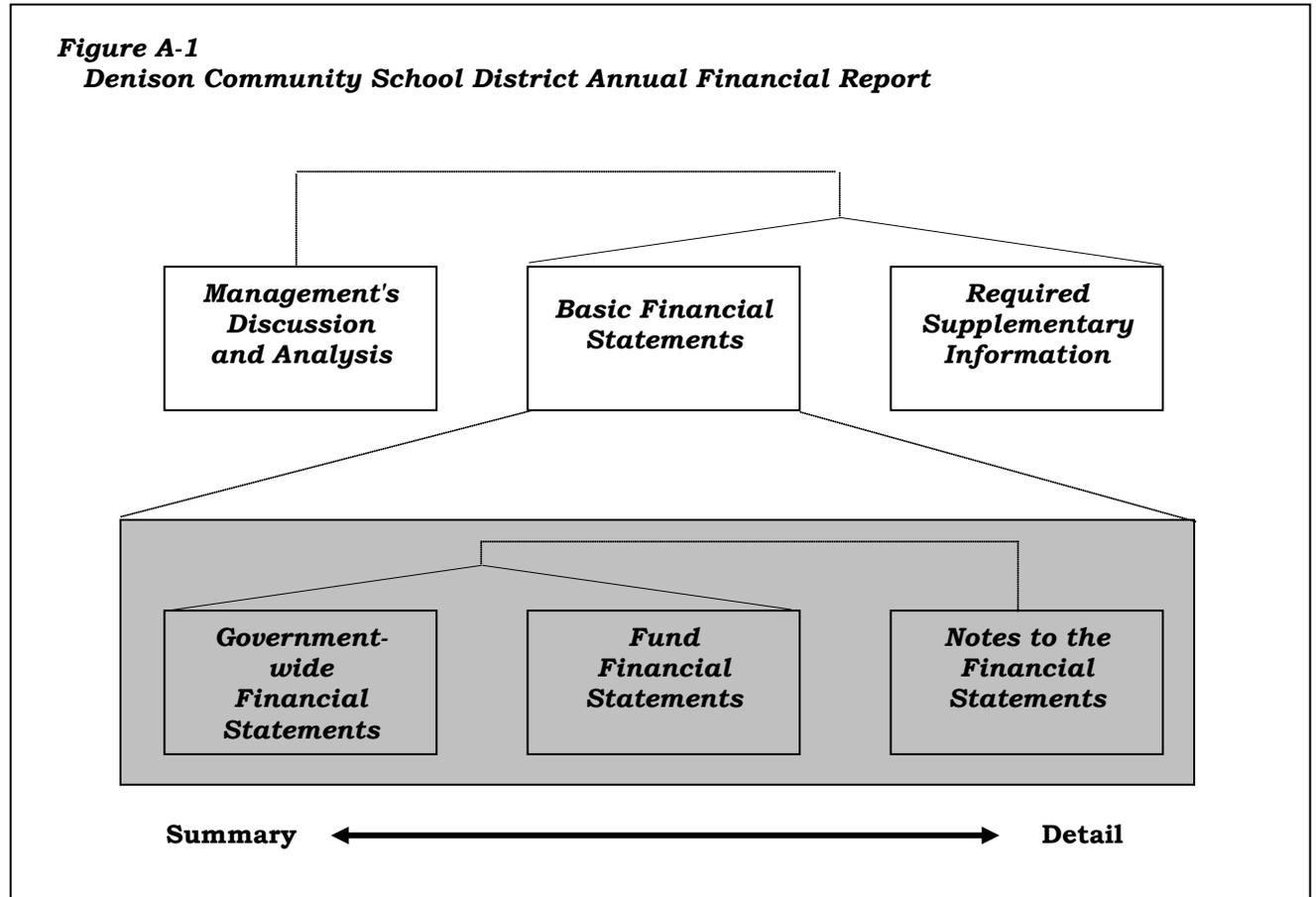


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 13,133,669	12,778,341	433,928	298,408	13,567,597	13,076,749	3.75%
Capital assets	20,569,602	20,573,297	343,742	325,958	20,913,344	20,899,255	0.07%
Total assets	33,703,271	33,351,638	777,670	624,366	34,480,941	33,976,004	1.49%
Long-term obligations	10,083,736	11,296,603	610	1,406	10,084,346	11,298,009	-10.74%
Other liabilities	6,955,940	6,751,711	79,957	10,264	7,035,897	6,761,975	4.05%
Total liabilities	17,039,676	18,048,314	80,567	11,670	17,120,243	18,059,984	-5.20%
Net assets:							
Invested in capital assets, net of related debt	10,644,602	10,177,449	343,742	325,958	10,988,344	10,503,407	4.62%
Restricted	3,099,742	2,767,353	-	-	3,099,742	2,767,353	12.01%
Unrestricted	2,919,251	2,358,522	353,361	286,738	3,272,612	2,645,260	23.72%
Total net assets	\$ 16,663,595	15,303,324	697,103	612,696	17,360,698	15,916,020	9.08%

The District's combined net assets increased by 9.08%, or \$1,444,678, 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 12.01%, or \$332,389, over the prior year. This increase in restricted net assets is mainly attributable to decreases in early retirement benefit payable and the increase in the Management Levy Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$627,352, or 23.72%. The increase in unrestricted net assets is mainly attributable to the increase in fund 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		Business type		Total		Total Change 2011-12
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
Program revenues:							
Charges for services	\$ 1,956,991	1,734,209	375,075	380,595	2,332,066	2,114,804	10.27%
Operating grants and contributions and restricted interest	2,049,327	2,915,768	955,373	883,543	3,004,700	3,799,311	-20.91%
Capital grants and contributions and restricted interest	-	546,540	-	-	-	546,540	-100.00%
General revenues:							
Property tax	4,340,454	4,229,341	-	-	4,340,454	4,229,341	2.63%
Income surtax	598,113	457,264	-	-	598,113	457,264	30.80%
Statewide sales, services and use tax	1,488,594	1,205,811	-	-	1,488,594	1,205,811	23.45%
Unrestricted state grants	12,089,017	10,885,157	-	-	12,089,017	10,885,157	11.06%
Nonspecific program federal grants	5,991	611,181	-	-	5,991	611,181	-99.02%
Other	149,750	399,450	3,746	7,007	153,496	406,457	-62.24%
Total revenues	22,678,237	22,984,721	1,334,194	1,271,145	24,012,431	24,255,866	-1.00%
Program expenses:							
Governmental activities:							
Instructional	13,547,438	13,191,820	-	-	13,547,438	13,191,820	2.70%
Support services	6,026,886	6,271,172	-	-	6,026,886	6,271,172	-3.90%
Non-instructional programs	-	-	1,249,787	1,174,248	1,249,787	1,174,248	6.43%
Other expenses	1,743,642	1,726,386	-	-	1,743,642	1,726,386	1.00%
Total expenses	21,317,966	21,189,378	1,249,787	1,174,248	22,567,753	22,363,626	0.91%
Changes in net assets	1,360,271	1,795,343	84,407	96,897	1,444,678	1,892,240	-23.65%
Net assets beginning of year	15,303,324	13,507,981	612,696	515,799	15,916,020	14,023,780	13.49%
Net assets end of year	\$ 16,663,595	15,303,324	697,103	612,696	17,360,698	15,916,020	9.08%

In fiscal year 2012, property tax, income surtax and unrestricted state grants account for 75.08% of governmental activities revenue while charges for service and sales and operating grants, contributions and restricted interest accounted for 99.72% of business type activities revenue.

The District's total revenues were approximately \$24.01 million of which approximately \$22.68 million was for governmental activities and approximately \$1.33 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.00% decrease in revenues and an 0.91% increase in expenses. Property tax increased \$111,113 and statewide sales, services and use tax increased \$282,783 to fund increases in expenditures. The increase in expenses related to increases in negotiated salary and benefits

## Governmental Activities

Revenues for governmental activities were \$22,678,237 and expenses were \$21,317,966 for the year ended June 30, 2012.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services 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	\$ 13,547,438	13,191,820	2.70%	10,611,020	9,424,145	12.59%
Support services	6,026,886	6,271,172	-3.90%	5,746,466	5,655,376	1.61%
Other expenses	1,743,642	1,726,386	1.00%	954,162	913,340	4.47%
Totals	\$ 21,317,966	21,189,378	0.61%	17,311,648	15,992,861	8.25%

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$1,956,991.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,049,327.
- The net cost of governmental activities was financed with \$4,340,454 in property tax, \$598,113 in income surtax, \$1,488,594 in statewide sales, services and use tax, \$12,089,017 in unrestricted state grants, \$5,991 in nonspecific program federal grants, \$13,724 in interest income and \$136,026 in other general revenues.

## Business type Activities

Revenues of the District's business type activity were \$1,334,194 and expenses were \$1,249,787. The District's business type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Denison 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 balances of \$5,756,445, above last year's ending fund balances of \$5,726,008. The primary reason for the increase in combined fund balances is because of the increase in fund balance in the General Fund.

## Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. The increase in salaries and benefits is one of the reasons for the increase in expenditures. Although revenues decreased, revenues still exceeded expenditures, resulting an increase in the General Fund balance of \$171,790 or 6.43%

## Proprietary Fund Highlights

The School Nutrition Fund's increase in revenues was enough to offset the continued increase in food costs, and salaries and benefits. Overall, net assets increased from \$612,696 at June 30, 2011 to \$697,103 at June 30, 2012, representing an increase of 13.78%.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the Denison Community School District amended its budget one time to reflect additional expenditures associated with the completion of a new bus barn.

The District's revenues were \$132,680 less than budgeted revenues, a variance of 0.55%. The most significant variances resulted from the District receiving less in state sources than what was originally anticipated.

Initially, total expenditures were less than budgeted, due 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, 2012, the District had invested \$20,913,344, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.07% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$838,703.

The original cost of the District's capital assets was \$29,753,152. Governmental funds account for \$29,141,205 with the remainder of \$611,947 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,373,817 at June 30, 2011 as compared to \$51,900 at June 30, 2012. During the year ended June 30, 2012, the construction of the new bus barn was completed.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 183,780	183,780	-	-	183,780	183,780	0.00%
Construction in progress	51,900	2,373,817	-	-	51,900	2,373,817	-97.81%
Buildings	18,768,448	16,626,875	-	-	18,768,448	16,626,875	12.88%
Land improvements	982,222	952,442	-	-	982,222	952,442	3.13%
Machinery and equipment	583,252	436,383	343,742	325,958	926,994	762,341	21.60%
Total	\$ 20,569,602	20,573,297	343,742	325,958	20,913,344	20,899,255	0.07%

## Long-Term Debt

At June 30, 2012, the District had \$10,084,346 in general obligation bonds, revenue bonds and other long-term debt outstanding. (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 outstanding General Obligation Bonds payable of \$3,915,000 at June 30, 2012.

The District also had outstanding Revenue Bonds payable from the Capital Projects Fund of \$6,010,000 at June 30, 2012.

The District has a Net OPEB liability of \$159,346 as of June 30, 2012. Governmental activities account for \$158,736 while business type activities account for \$610.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 3,915,000	4,115,000	-	-	3,915,000	4,115,000	-4.86%
Revenue bonds	6,010,000	6,585,000	-	-	6,010,000	6,585,000	-8.73%
Early retirement	-	229,232	-	-	-	229,232	-100.00%
Net OPEB liability	158,736	367,371	610	1,406	159,346	368,777	-56.79%
Total	\$ 10,083,736	11,296,603	610	1,406	10,084,346	11,298,009	-10.74%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- It is a concern of this District, as well as every District in the state, that certain costs will continue to increase, such as those associated with negotiated agreements with unions, i.e. salaries and benefits. The District continues to approve an Early Retirement Plan in an effort to achieve costs savings through higher paid teachers retiring early and hiring less experienced teachers as replacements that typically will be paid less, thus resulting in a cost savings to the General Fund. Other uncontrolled costs such as fuel also continue to be watched. With the legislature's hesitancy to fully fund and increase funding, knowing that these costs will continue to rise, the District remains vigilant to use completely and efficiently all the resources it has at its disposal.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. Also continued budget concerns at state level will affect future projections. The District will continue to be forced to shift funding to property taxes.
- The District's certified enrollment in October of 2012 showed an increase of 36.8 students. Increasing or at least maintaining enrollment in upcoming years will be necessary to help maintain the District's financial health.
- On July 1, 2012, the IPERS increase to 8.67% will increase the Denison Community Schools employer benefit costs during fiscal 2013. An additional increase to 8.93% is anticipated for FY14.

- 
- Health Care Reform mandates are going to have to be monitored very closely. The district currently has some part-time employee groups that do not have health care coverage offered to them. It looks as though this may have to change and with that change will be some added cost to the district.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Scott Larson, Business Manager, Denison Community School District, 819 North 16<sup>th</sup> Street, Denison, Iowa, 51442.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 6,839,463	415,054	7,254,517
Receivables:			
Property tax:			
Delinquent	39,532	-	39,532
Succeeding year	4,533,865	-	4,533,865
Income surtax	565,809	-	565,809
Accounts	14,339	12,182	26,521
Due from other governments	1,133,751	-	1,133,751
Inventories	6,910	6,692	13,602
Capital assets, net of accumulated depreciation	20,569,602	343,742	20,913,344
<b>TOTAL ASSETS</b>	<b>33,703,271</b>	<b>777,670</b>	<b>34,480,941</b>
<b>LIABILITIES</b>			
Accounts payable	459,616	69,160	528,776
Salaries and benefits payable	1,817,934	5,219	1,823,153
Accrued interest payable	144,525	-	144,525
Deferred revenue:			
Succeeding year property tax	4,533,865	-	4,533,865
Unearned revenue	-	5,578	5,578
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	210,000	-	210,000
Revenue bonds payable	585,000	-	585,000
Portion due after one year:			
General obligation bonds payable	3,705,000	-	3,705,000
Revenue bonds payable	5,425,000	-	5,425,000
Net OPEB liability	158,736	610	159,346
<b>TOTAL LIABILITIES</b>	<b>17,039,676</b>	<b>80,567</b>	<b>17,120,243</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,644,602	343,742	10,988,344
Restricted for:			
Categorical funding	187,641	-	187,641
Management levy purposes	316,011	-	316,011
Student activities	160,966	-	160,966
School infrastructure	791,976	-	791,976
Physical plant and equipment	124,284	-	124,284
Debt service	1,518,864	-	1,518,864
Unrestricted	2,919,251	353,361	3,272,612
<b>TOTAL NET ASSETS</b>	<b>\$ 16,663,595</b>	<b>697,103</b>	<b>17,360,698</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants, Charges for Services		Govern- mental Activities	Business Type Activities	Total
		Contributions and Restricted Interest				
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 7,965,868	1,142,131	130,936	(6,692,801)	-	(6,692,801)
Special	2,337,579	278,551	174,052	(1,884,976)	-	(1,884,976)
Other	3,243,991	536,309	674,439	(2,033,243)	-	(2,033,243)
	<u>13,547,438</u>	<u>1,956,991</u>	<u>979,427</u>	<u>(10,611,020)</u>	<u>-</u>	<u>(10,611,020)</u>
Support services:						
Student	684,958	-	194,122	(490,836)	-	(490,836)
Instructional staff	741,276	-	72,143	(669,133)	-	(669,133)
Administration	1,644,750	-	194	(1,644,556)	-	(1,644,556)
Operation and maintenance of plant	2,012,939	-	-	(2,012,939)	-	(2,012,939)
Transportation	942,963	-	13,961	(929,002)	-	(929,002)
	<u>6,026,886</u>	<u>-</u>	<u>280,420</u>	<u>(5,746,466)</u>	<u>-</u>	<u>(5,746,466)</u>
Long-term debt interest	397,854	-	-	(397,854)	-	(397,854)
Other expenses:						
AEA flowthrough	789,480	-	789,480	-	-	-
Depreciation (unallocated)*	556,308	-	-	(556,308)	-	(556,308)
	<u>1,345,788</u>	<u>-</u>	<u>789,480</u>	<u>(556,308)</u>	<u>-</u>	<u>(556,308)</u>
Total governmental activities	21,317,966	1,956,991	2,049,327	(17,311,648)	-	(17,311,648)
Business Type activities:						
Non-instructional programs:						
Nutrition services	1,249,787	375,075	955,373	-	80,661	80,661
Total	<u>\$ 22,567,753</u>	<u>2,332,066</u>	<u>3,004,700</u>	<u>(17,311,648)</u>	<u>80,661</u>	<u>(17,230,987)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 3,859,513	-	3,859,513
Debt service				346,163	-	346,163
Capital outlay				134,778	-	134,778
Income surtax				598,113	-	598,113
Statewide sales, services and use tax				1,488,594	-	1,488,594
Unrestricted state grants				12,089,017	-	12,089,017
Nonspecific program federal grants				5,991	-	5,991
Unrestricted investment earnings				13,724	610	14,334
Other				136,026	3,136	139,162
Total general revenues				<u>18,671,919</u>	<u>3,746</u>	<u>18,675,665</u>
Changes in net assets				1,360,271	84,407	1,444,678
Net assets beginning of year				15,303,324	612,696	15,916,020
Net assets end of year				<u>\$ 16,663,595</u>	<u>697,103</u>	<u>17,360,698</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 4,372,144	2,467,319	6,839,463
Receivables:			
Property tax:			
Delinquent	32,473	7,059	39,532
Succeeding year	3,685,842	848,023	4,533,865
Income surtax	565,809	-	565,809
Accounts	13,780	559	14,339
Due from other funds	4,506	35,818	40,324
Due from other governments	615,086	518,665	1,133,751
Inventories	6,910	-	6,910
<b>TOTAL ASSETS</b>	<b>\$ 9,296,550</b>	<b>3,877,443</b>	<b>13,173,993</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Due to other funds	\$ 35,818	4,506	40,324
Accounts payable	346,803	112,813	459,616
Salaries and benefits payable	1,817,934	-	1,817,934
Deferred revenue:			
Succeeding year property tax	3,685,842	848,023	4,533,865
Income surtax	565,809	-	565,809
Total liabilities	<b>6,452,206</b>	<b>965,342</b>	<b>7,417,548</b>
Fund balances:			
Restricted for:			
Nonspendable	6,910	-	6,910
Categorical funding	187,641	-	187,641
Construction	-	-	-
Management levy purposes	-	316,011	316,011
Student activities	-	160,966	160,966
School infrastructure	-	791,976	791,976
Physical plant and equipment	-	124,284	124,284
Debt service	-	1,518,864	1,518,864
Unassigned	2,649,793	-	2,649,793
Total fund balances	<b>2,844,344</b>	<b>2,912,101</b>	<b>5,756,445</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 9,296,550</b>	<b>3,877,443</b>	<b>13,173,993</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 20)</b>	\$	5,756,445
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		20,569,602
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		565,809
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(144,525)
Long-term liabilities, including general obligation bonds payable, revenue bonds payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(10,083,736)
		(10,083,736)
<b>Net assets of governmental activities (page 18)</b>	<b>\$</b>	<b>16,663,595</b>
		<b>16,663,595</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 4,036,380	2,271,536	6,307,916
Tuition	1,341,712	-	1,341,712
Other	200,816	564,213	765,029
Intermediate sources	15,065	-	15,065
State sources	13,020,118	430	13,020,548
Federal sources	1,108,722	-	1,108,722
Total revenues	<u>19,722,813</u>	<u>2,836,179</u>	<u>22,558,992</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	8,027,349	217,511	8,244,860
Special	2,422,224	-	2,422,224
Other	2,729,418	522,607	3,252,025
	<u>13,178,991</u>	<u>740,118</u>	<u>13,919,109</u>
Support services:			
Student	693,105	-	693,105
Instructional staff	761,608	-	761,608
Administration	1,683,256	9,016	1,692,272
Operation and maintenance of plant	1,629,295	220,181	1,849,476
Transportation	824,324	242,104	1,066,428
	<u>5,591,588</u>	<u>471,301</u>	<u>6,062,889</u>
Capital outlay	-	591,842	591,842
Long-term debt:			
Principal	-	775,000	775,000
Interest and fiscal charges	-	399,271	399,271
	<u>-</u>	<u>1,174,271</u>	<u>1,174,271</u>
Other expenditures:			
AEA flowthrough	789,480	-	789,480
Total expenditures	<u>19,560,059</u>	<u>2,977,532</u>	<u>22,537,591</u>
Excess (Deficiency) of revenues over (under) expenditures	162,754	(141,353)	21,401
Other financing sources (uses):			
Transfer in	-	847,347	847,347
Transfer out	-	(847,347)	(847,347)
Sale of capital assets	9,036	-	9,036
Total other financing sources (uses)	<u>9,036</u>	<u>-</u>	<u>9,036</u>
Net change in fund balance	171,790	(141,353)	30,437
Fund balance beginning of year	<u>2,672,554</u>	<u>3,053,454</u>	<u>5,726,008</u>
Fund balance end of year	<u>\$ 2,844,344</u>	<u>2,912,101</u>	<u>5,756,445</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON 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)** \$ 30,437

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

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

Expenditures for capital assets	\$ 787,945	
Depreciation expense	<u>(791,640)</u>	(3,695)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 775,000

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. 1,417

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 119,245

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

Early retirement	229,232	
Other postemployment benefits	<u>208,635</u>	<u>437,867</u>

**Changes in net assets of governmental activities (page 19)** \$ 1,360,271

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	\$ 415,054
Accounts receivable	12,182
Inventories	6,692
Total current assets	433,928
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	343,742
Total non-current assets	343,742
TOTAL ASSETS	777,670
LIABILITIES	
Current liabilities:	
Accounts payable	69,160
Salaries and benefits payable	5,219
Unearned revenue	5,578
Total current liabilities	79,957
Long-term liabilities:	
Net OPEB liability	610
Total long-term liabilities	610
TOTAL LIABILITIES	80,567
NET ASSETS	
Invested in capital assets	343,742
Unrestricted	353,361
TOTAL NET ASSETS	\$ 697,103

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 375,075
Miscellaneous	3,136
TOTAL OPERATING REVENUES	378,211
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	404,916
Benefits	68,232
Services	17,313
Supplies	711,100
Depreciation	47,083
TOTAL OPERATING EXPENSES	1,248,644
OPERATING LOSS	(870,433)
NON-OPERATING REVENUES (EXPENSES) :	
Interest	610
State sources	12,401
Federal sources	942,972
Loss on disposal	(1,143)
TOTAL NON-OPERATING REVENUES (EXPENSES)	954,840
Change in net assets	84,407
Net assets beginning of year	612,696
Net assets end of year	\$ 697,103

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 362,191
Cash received from miscellaneous operating activities	3,136
Cash payments to employees for services	(468,725)
Cash payments to suppliers for goods or services	(584,963)
Net cash used in operating activities	(688,361)
Cash flows from non-capital financing activities:	
State grants received	12,401
Federal grants received	877,368
Net cash provided by non-capital financing activities	889,769
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(66,010)
Cash flows from investing activities:	
Interest on investments	610
Net increase in cash and cash equivalents	136,008
Cash and cash equivalents at beginning of year	279,046
Cash and cash equivalents at end of year	\$ 415,054
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (870,433)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	77,679
Depreciation	47,083
Decrease in inventories	485
Increase in accounts receivable	(12,072)
Increase in accounts payable	65,286
Increase in salaries and benefits payable	5,219
Decrease in unearned revenue	(812)
Decrease in other postemployment benefits	(796)
Net cash used in operating activities	\$ (688,361)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$77,679.

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarship</u>	
ASSETS		
Cash and pooled investments	\$ 53,967	7,358
Accounts receivable	-	638
TOTAL ASSETS	<u>53,967</u>	<u>7,996</u>
LIABILITIES		
Accounts payable	-	741
Due to other groups	-	7,255
TOTAL LIABILITIES	<u>-</u>	<u>7,996</u>
NET ASSETS		
Restricted for scholarships	39,310	-
Unrestricted	14,657	-
TOTAL NET ASSETS	<u>\$ 53,967</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Interest	\$          512
Contributions	2,400
TOTAL ADDITIONS	2,912
DEDUCTIONS:	
Instruction:	
Other:	
Scholarships awarded	2,900
Change in net assets	12
Net assets beginning of year	53,955
Net assets end of year	\$          53,967

SEE NOTES TO FINANCIAL STATEMENTS.

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

**(1) Summary of Significant Accounting Policies**

The Denison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served primarily includes the Cities of Denison, Kiron and Deloit, Iowa, and the predominate agricultural territory of Crawford County and a small portion of rural Ida County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

For financial reporting purposes, Denison 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 Denison 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 does 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 Ida and Crawford County Assessors' 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 service.

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other 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 District's also reports one major proprietary fund which is the Enterprise, School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid 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 - committed, assigned 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
Machinery and equipment:	
Intangibles	150,000
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

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

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

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

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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:

Nonspendable - Amounts that include inventory in the General Fund.

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

Unassigned - All amounts not included in other spendable or nonspendable 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 \$333 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

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

The detail of interfund receivables/payables at June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects: Physical Plant and Equipment Levy	General	\$ 15,834
Capital Projects: Statewide Sales, Services and Use Tax	General	19,984
General	Special Revenue: Student Activity	<u>4,506</u>
Total		<u>\$ 40,324</u>

The General Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for moneys received from the Fire Life Safety Grant during fiscal 2010.

The General Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax Fund for moneys received from the Fire Life Safety Grant during fiscal 2010.

The Special Revenue: Student Activity Fund is repaying the General Fund for expenses paid from the General Fund that had not been reimbursed by June 30, 2012.

**(4) Interfund Transfers**

Transfers for the year ended June 30, 2012 are as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 802,113
Capital Projects: Construction Projects	Capital Projects: Statewide Sales, Services and Use Tax	45,234
Total		<u>\$ 847,347</u>

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

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Capital Projects: Construction Projects Fund was to close out the Capital Projects: Construction Projects Fund.

**(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 Bonds	4,115,000	-	200,000	3,915,000	210,000
Revenue Bonds	6,585,000	-	575,000	6,010,000	585,000
Early Retirement	229,232	-	229,232	-	-
Net OPEB liability	367,371	-	208,635	158,736	-
Total	<u>11,296,603</u>	<u>-</u>	<u>1,212,867</u>	<u>10,083,736</u>	<u>795,000</u>
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	1,406	-	796	610	-

General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year	Bond Issue of May 1, 2006				
Ending June 30,	Interest Rates		Principal	Interest	Total
2013	4.25	% \$	210,000	162,521	372,521
2014	4.25		220,000	153,596	373,596
2015	4.25		230,000	144,246	374,246
2016	4.25		240,000	133,896	373,896
2017	4.25		250,000	121,896	371,896
2018-2022	3.85-5.00		1,410,000	455,453	1,865,453
2023-2026	4.13		1,355,000	135,014	1,490,014
Total			\$ 3,915,000	1,306,622	5,221,622

Revenue Bonds Payable

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year	Bond Issue of July 1, 2010				
Ending June 30,	Interest Rates		Principal	Interest	Total
2013	3.00	% \$	585,000	208,850	793,850
2014	3.00		600,000	191,075	791,075
2015	3.00		615,000	172,850	787,850
2016	3.00		195,000	160,700	355,700
2017	3.00		200,000	154,775	354,775
2018-2022	3.00-3.80		1,130,000	669,975	1,799,975
2023-2027	4.00-4.20		1,410,000	429,301	1,839,301
2028-2030	4.25-4.50		1,275,000	102,831	1,377,831
Total			\$ 6,010,000	2,090,357	8,100,357

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,585,000 bonds issued July 1, 2010. The bonds were issued for the purpose of defeasement of \$2,235,000 in principal of the May 1, 2006 bond issue as well as defray costs of renovations of the Broadway Elementary building and construction of a new bus barn. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 66 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$8,901,607. For the current year \$117,438 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,205,811.

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

- a) \$578,387 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.

- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to any full-time District employee who is presently covered by the District's insurance program, is presently under contract, has been with the District for ten or more years, and who on July 1 of the retirement year is between the ages of fifty-five and sixty-four. certified and support staff employees. Employees must complete an application which is required to be approved by the Board of Education. The District provides a minimum benefit of \$100 per month for the monthly premiums for single and family health and major medical insurance coverage. There is not a liability recorded for early retirement as it is factored as an explicit subsidy within the District Other Postemployment Liability.

**(6) 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	\$ 183,780	-	-	183,780
Construction in progress	2,373,817	272,189	2,594,106	51,900
Total capital assets not being depreciated	<u>2,557,597</u>	<u>272,189</u>	<u>2,594,106</u>	<u>235,680</u>
Capital assets being depreciated:				
Buildings	22,149,534	2,620,406	-	24,769,940
Land improvements	1,465,938	107,255	-	1,573,193
Machinery and equipment	2,221,816	382,201	41,625	2,562,392
Total capital assets being depreciated	<u>25,837,288</u>	<u>3,109,862</u>	<u>41,625</u>	<u>28,905,525</u>
Less accumulated depreciation for:				
Buildings	5,522,659	478,833	-	6,001,492
Land improvements	513,496	77,475	-	590,971
Machinery and equipment	1,785,433	235,332	41,625	1,979,140
Total accumulated depreciation	<u>7,821,588</u>	<u>791,640</u>	<u>41,625</u>	<u>8,571,603</u>
Total capital assets being depreciated, net	<u>18,015,700</u>	<u>2,318,222</u>	<u>-</u>	<u>20,333,922</u>
Governmental activities capital assets, net	<u>\$ 20,573,297</u>	<u>2,590,411</u>	<u>2,594,106</u>	<u>20,569,602</u>

	Balance			Balance
	Beginning	Increases	Decreases	End
	of Year			of Year
Business type activities:				
Machinery and equipment	\$ 597,442	66,010	51,505	611,947
Less accumulated depreciation	271,484	47,083	50,362	268,205
Business type activities capital assets, net	\$ 325,958	18,927	1,143	343,742

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 7,001
Other		20,257
Support services:		
Instructional staff		4,113
Administration		15,153
Operation and maintenance		42,867
Transportation		145,921
		<u>235,312</u>
Unallocated depreciation		<u>556,308</u>
Total governmental activities depreciation expense		<u>\$ 791,620</u>
Business type activities:		
Food services		<u>\$ 47,083</u>

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,019,438, \$836,383 and \$772,358, respectively, equal to the required contributions for each year.

**(8) 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 185 active and 25 retired members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefits are provided through a fully-insured plan with United HealthCare-River Valley. Retirees under age 65 pay the same premium for the medical/ prescription drug benefit as active employees, which results in an implicit and explicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit. The District also offers early retirement benefits in the form of health insurance benefits resulting in an explicit rate subsidy to the 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	\$ 154,000
Interest on net OPEB obligation	16,595
Adjustment to annual required contribution	(179,026)
Annual OPEB cost (expense)	<u>(8,431)</u>
Contributions made	<u>(201,000)</u>
Increase in net OPEB obligation	(209,431)
Net OPEB obligation - beginning of year	<u>368,777</u>
Net OPEB obligation - end of year	<u><u>\$ 159,346</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:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 186,000	30.65%	\$ 129,000
2010	187,319	34.70%	251,319
2011	187,458	37.34%	368,777

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 \$1.717

million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.717 million. The covered payroll (annual payroll of active employees covered by the plan) was \$10.092 million, and the ratio of the UAAL to the covered payroll was 17.0%. 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 percentage 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 \$621 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.

## **(9) Risk Management**

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.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$789,480 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Construction Commitment**

The District has entered into various contracts totaling \$145,136 for a new boiler at 20<sup>th</sup> Street Elementary and air conditioning updates at the high school. As of June 30, 2012, costs of \$51,900 had been incurred against the contracts. The balance of \$93,236 remaining at June 30, 2012 will be paid as work on the project progresses. The total cost of the improvements will be added to the District's fixed asset listing upon completion.

**(12) 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 weighting	\$ 25,100
Talented and gifted	89,604
Teacher salary supplement	19,737
Statewide voluntary preschool	4
Destination graduation	3,186
Model core curriculum	46,187
Professional development	3,823
Total	<u>\$ 187,641</u>

REQUIRED SUPPLEMENTARY INFORMATION

DENISON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 8,414,657	378,821	8,793,478	8,334,224	8,334,224	459,254
Intermediate sources	15,065	-	15,065	15,000	15,000	65
State sources	13,020,548	12,401	13,032,949	13,523,642	13,523,642	(490,693)
Federal sources	1,108,722	942,972	2,051,694	2,153,000	2,153,000	(101,306)
Total revenues	<u>22,558,992</u>	<u>1,334,194</u>	<u>23,893,186</u>	<u>24,025,866</u>	<u>24,025,866</u>	<u>(132,680)</u>
Expenditures/Expenses:						
Instruction	13,919,109	-	13,919,109	14,575,000	14,575,000	655,891
Support services	6,062,889	-	6,062,889	6,277,545	6,277,545	214,656
Non-instructional programs	-	1,249,787	1,249,787	1,500,000	1,500,000	250,213
Other expenditures	2,555,593	-	2,555,593	2,484,048	2,834,048	278,455
Total expenditures/expenses	<u>22,537,591</u>	<u>1,249,787</u>	<u>23,787,378</u>	<u>24,836,593</u>	<u>25,186,593</u>	<u>1,399,215</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	21,401	84,407	105,808	(810,727)	(1,160,727)	1,266,535
Other financing sources, net	<u>9,036</u>	<u>-</u>	<u>9,036</u>	<u>-</u>	<u>-</u>	<u>9,036</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	30,437	84,407	114,844	(810,727)	(1,160,727)	1,275,571
Balance beginning of year	<u>5,726,008</u>	<u>612,696</u>	<u>6,338,704</u>	<u>4,597,855</u>	<u>4,597,855</u>	<u>1,740,849</u>
Balance end of year	<u>\$ 5,756,445</u>	<u>697,103</u>	<u>6,453,548</u>	<u>3,787,128</u>	<u>3,437,128</u>	<u>3,016,420</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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. During the year ended June 30, 2012, the District adopted one budget amendment increasing budgeted expenditures by \$350,000.

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

REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 1,810	\$ 1,810	0.00 %	\$ 9,330	19.4 %
July 1, 2008	-	1,810	1,810	0.00	8,837	20.5
July 1, 2010	-	1,717	1,717	0.00	10,092	17.0

See Note 8 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

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

	Special Revenue					Total
	Management Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 313,254	166,513	479,767	471,848	1,515,704	2,467,319
Receivables:						
Property tax:						
Delinquent	2,757	-	2,757	1,142	3,160	7,059
Succeeding year	360,000	-	360,000	115,001	373,022	848,023
Accounts	-	559	559	-	-	559
Due from other funds	-	-	-	35,818	-	35,818
Due from other governments	-	861	861	517,804	-	518,665
<b>Total Assets</b>	<b>\$ 676,011</b>	<b>167,933</b>	<b>843,944</b>	<b>1,141,613</b>	<b>1,891,886</b>	<b>3,877,443</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Due to other funds	\$ -	4,506	4,506	-	-	4,506
Accounts payable	-	2,461	2,461	110,352	-	112,813
Deferred revenue:						
Succeeding year property tax	360,000	-	360,000	115,001	373,022	848,023
<b>Total Liabilities</b>	<b>360,000</b>	<b>6,967</b>	<b>366,967</b>	<b>225,353</b>	<b>373,022</b>	<b>965,342</b>
Fund balances:						
Restricted for:						
Management levy purposes	316,011	-	316,011	-	-	316,011
Student activities	-	160,966	160,966	-	-	160,966
School infrastructure	-	-	-	791,976	-	791,976
Physical plant and equipment	-	-	-	124,284	-	124,284
Debt service	-	-	-	-	1,518,864	1,518,864
<b>Total fund balances</b>	<b>316,011</b>	<b>160,966</b>	<b>476,977</b>	<b>916,260</b>	<b>1,518,864</b>	<b>2,912,101</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 676,011</b>	<b>167,933</b>	<b>843,944</b>	<b>1,141,613</b>	<b>1,891,886</b>	<b>3,877,443</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					Total
	Management Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 302,001	-	302,001	1,623,372	346,163	2,271,536
Other	20,421	536,309	556,730	5,431	2,052	564,213
State sources	170	-	170	66	194	430
Total revenues	<u>322,592</u>	<u>536,309</u>	<u>858,901</u>	<u>1,628,869</u>	<u>348,409</u>	<u>2,836,179</u>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular	78,784	-	78,784	138,727	-	217,511
Other	-	522,607	522,607	-	-	522,607
Support services:						
Administration	5,749	-	5,749	3,267	-	9,016
Operation and maintenance of plant	147,360	-	147,360	72,821	-	220,181
Transportation	22,306	-	22,306	219,798	-	242,104
Capital outlay	-	-	-	591,842	-	591,842
Long-term debt:						
Principal	-	-	-	-	775,000	775,000
Interest and fiscal charges	-	-	-	-	399,271	399,271
Total expenditures	<u>254,199</u>	<u>522,607</u>	<u>776,806</u>	<u>1,026,455</u>	<u>1,174,271</u>	<u>2,977,532</u>
Excess(Deficiency) of revenues over(under) expenditures	68,393	13,702	82,095	602,414	(825,862)	(141,353)
Other financing sources(uses):						
Transfers in	-	-	-	45,234	802,113	847,347
Transfers out	-	-	-	(847,347)	-	(847,347)
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(802,113)</u>	<u>802,113</u>	<u>-</u>
Net change in fund balances	68,393	13,702	82,095	(199,699)	(23,749)	(141,353)
Fund balances beginning of year	<u>247,618</u>	<u>147,264</u>	<u>394,882</u>	<u>1,115,959</u>	<u>1,542,613</u>	<u>3,053,454</u>
Fund balances end of year	<u>\$ 316,011</u>	<u>160,966</u>	<u>476,977</u>	<u>916,260</u>	<u>1,518,864</u>	<u>2,912,101</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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
<b>ASSETS</b>			
Cash and pooled investments	\$ 364,540	107,308	471,848
Receivables:			
Property tax:			
Delinquent	-	1,142	1,142
Succeeding year	-	115,001	115,001
Due from other funds	19,984	15,834	35,818
Due from other governments	517,804	-	517,804
<b>TOTAL ASSETS</b>	<b>\$ 902,328</b>	<b>239,285</b>	<b>1,141,613</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 110,352	-	110,352
Deferred revenue:			
Succeeding year property tax	-	115,001	115,001
Total liabilities	110,352	115,001	225,353
Fund balances:			
Restricted for:			
School infrastructure	791,976	-	791,976
Physical plant and equipment	-	124,284	124,284
Total fund balances	791,976	124,284	916,260
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 902,328</b>	<b>239,285</b>	<b>1,141,613</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects			Total
	Statewide Sales Services and Use Tax	Construction Projects	Physical Plant and Equipment Levy	
REVENUES:				
Local sources:				
Local tax	\$ 1,488,594	-	134,778	1,623,372
Other	3,044	193	2,194	5,431
State sources	-	-	66	66
Total revenues	<u>1,491,638</u>	<u>193</u>	<u>137,038</u>	<u>1,628,869</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	138,727	-	-	138,727
Support services:				
Administration	3,267	-	-	3,267
Operation and maintenance of plant	72,821	-	-	72,821
Transportation	219,798	-	-	219,798
Capital outlay	216,695	349,579	25,568	591,842
Total expenditures	<u>651,308</u>	<u>349,579</u>	<u>25,568</u>	<u>1,026,455</u>
Excess(Deficiency) of revenues over(under) expenditures	840,330	(349,386)	111,470	602,414
Other financing sources(uses):				
Transfer in	-	45,234	-	45,234
Transfer out	(847,347)	-	-	(847,347)
Total other financing sources(uses)	<u>(847,347)</u>	<u>45,234</u>	<u>-</u>	<u>(802,113)</u>
Change in net assets	(7,017)	(304,152)	111,470	(199,699)
Net assets beginning of year	<u>798,993</u>	<u>304,152</u>	<u>12,814</u>	<u>1,115,959</u>
Net assets end of year	<u>\$ 791,976</u>	<u>-</u>	<u>124,284</u>	<u>916,260</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 4,500	12	445	4,067
Musical	-	8,758	8,758	-
Drama rental	368	-	-	368
Vocal	(4,535)	13,798	8,862	401
MS band	1,601	2,311	3,034	878
Athletics	23,727	119,108	116,922	25,913
MS athletics	1,344	7,642	8,986	-
Cross country	1,089	3,274	4,231	132
Art club	620	202	200	622
Baseball club	4,589	26,818	21,892	9,515
Basketball club	3,033	10,543	9,973	3,603
Football club	5,366	15,242	13,078	7,530
World language club	332	-	-	332
Boys golf club	2,516	2,462	2,035	2,943
Girl golf club	518	526	738	306
Health career club	2,059	482	91	2,450
Industrial arts club	908	3	-	911
Softball club	658	9,991	10,239	410
Boys tennis club	-	305	-	305
Girls tennis club	1,337	2,395	2,649	1,083
Track club	166	757	918	5
Volleyball club	4,235	12,822	13,180	3,877
Wrestling club	424	3,101	2,845	680
Boys soccer	912	1,184	1,087	1,009
Fitness center	2,500	1	2,291	210
Girls soccer	2,876	1,929	2,894	1,911
National honor society	632	273	43	862
Do something club	280	-	280	-
Activity ticket	(2)	9,650	9,648	-
Academic decathlon	126	301	327	100
Girls basketball	(1,475)	11,978	9,671	832
Business 2000	1,939	85	213	1,811
Change	(450)	850	400	-
Cheerleaders	1,093	8,008	7,352	1,749
Concessions	20	49,457	47,459	2,018
Elementary activity	14,562	11,338	18,903	6,997
FCA	287	-	-	287

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
FFA	13,684	55,895	57,471	12,108
Bowling club	495	686	624	557
Forensics	-	5,592	5,592	-
Insufficient checks	(463)	990	512	15
FCCLA	2,233	3,994	2,616	3,611
Interest	-	495	495	-
MS faculty pop	(60)	60	-	-
MS activity	5,792	33,781	33,250	6,323
Destination imagination	2,620	8	-	2,628
HS pop fund	13	4,099	2,234	1,878
Students assist	65	-	65	-
Student ambassador	5,197	1,824	4,054	2,967
Student senate	18,638	17,921	15,551	21,008
Yearbook	1,726	2,075	3,801	-
Girls track	-	1,486	563	923
High school	789	3	-	792
Purple Pride	1,329	1,073	1,987	415
MS concessions	27	7,767	7,794	-
Peer mediation	193	-	193	-
Java den	536	-	536	-
Community service	88	-	88	-
Broadway elementary	10,737	7,313	12,086	5,964
Key club	4,831	10,567	11,057	4,341
Instrumental	(4,105)	31,033	21,821	5,107
Class of 2012	5,044	3,470	8,514	-
Class of 2013	(300)	10,271	1,759	8,212
Class of 2014	-	300	300	-
Total	\$ 147,264	536,309	522,607	160,966

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund					
	Riggleman Scholarship	Laces Foundation	Anonymous Scholarship	Raun Scholarship	Selander Scholarship	Total
ASSETS						
Cash and pooled investments	\$ 21,073	164	200	12,048	20,482	53,967
LIABILITIES	-	-	-	-	-	-
NET ASSETS						
Restricted for scholarships	7,310	-	-	12,000	20,000	39,310
Unrestricted	13,763	164	200	48	482	14,657
TOTAL NET ASSETS	\$ 21,073	164	200	12,048	20,482	53,967

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

DENISON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund					Total
	Riggleman Scholarship	Laces Foundation	Anonymous Scholarship	Raun Scholarship	Selander Scholarship	
ADDITIONS:						
Local sources:						
Interest	\$ 241	-	-	42	229	512
Contributions	2,000	-	400	-	-	2,400
TOTAL ADDITIONS	<u>2,241</u>	<u>-</u>	<u>400</u>	<u>42</u>	<u>229</u>	<u>2,912</u>
DEDUCTIONS:						
Instruction:						
Other:						
Scholarships awarded	1,500	-	400	500	500	2,900
Change in net assets	741	-	-	(458)	(271)	12
Net assets beginning of year	20,332	164	200	12,506	20,753	53,955
Net assets end of year	<u>\$ 21,073</u>	<u>164</u>	<u>200</u>	<u>12,048</u>	<u>20,482</u>	<u>53,967</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ 58,634	104,448	155,724	7,358
Accounts receivable	719	638	719	638
<b>TOTAL ASSETS</b>	<b>\$ 59,353</b>	<b>105,086</b>	<b>156,443</b>	<b>7,996</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 54,055	741	54,055	741
Due to other groups	5,298	104,345	102,388	7,255
<b>TOTAL LIABILITIES</b>	<b>\$ 59,353</b>	<b>105,086</b>	<b>156,443</b>	<b>7,996</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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	\$ 6,307,916	5,875,127	5,503,479	5,160,031	4,960,166	4,762,011	4,242,492	4,188,725	3,647,468
Tuition	1,341,712	971,269	1,030,918	1,048,663	1,051,805	1,089,459	949,792	970,408	1,176,857
Other	765,029	1,136,461	623,548	754,469	1,067,344	1,302,002	1,111,703	881,057	620,216
Intermediate sources	15,065	25,929	16,097	70,023	9,591	-	1,495	1,500	3,400
State sources	13,020,548	12,024,178	10,404,882	11,219,111	10,694,202	10,072,320	9,484,543	8,598,370	7,616,970
Federal sources	1,108,722	2,934,468	2,544,259	1,362,619	1,149,172	1,472,722	1,132,611	1,439,305	910,323
Total	\$ 22,558,992	22,967,432	20,123,183	19,614,916	18,932,280	18,698,514	16,922,636	16,079,365	13,975,234
Expenditures:									
Instruction:									
Regular	\$ 8,244,860	7,188,488	7,422,924	7,054,027	6,720,642	5,746,997	5,737,369	5,517,950	5,312,309
Special	2,422,224	2,074,679	2,045,282	2,116,784	2,049,794	1,797,185	1,876,874	2,271,519	1,742,179
Other	3,252,025	3,886,528	3,016,204	2,855,764	2,480,169	2,935,405	2,494,860	1,936,036	2,294,602
Support services:									
Student	693,105	601,621	583,261	561,680	578,550	497,592	499,623	434,464	410,391
Instructional staff	761,608	975,503	646,862	705,866	864,107	596,334	502,824	365,182	359,976
Administration	1,692,272	1,725,304	1,572,611	1,611,937	1,483,141	1,407,915	1,427,585	1,266,606	1,159,764
Operation and maintenance of plant	1,849,476	1,756,679	1,581,389	1,622,136	1,650,339	1,387,985	1,299,206	1,341,401	1,221,855
Transportation	1,066,428	741,042	786,589	729,187	823,859	730,200	706,862	671,070	687,517
Other support	-	-	-	-	-	-	-	-	16,244
Non-instructional programs	-	-	-	-	-	-	-	1,978	-
Other expenditures:									
Facilities acquisitions	591,842	4,686,821	677,074	749,239	4,012,528	6,584,913	1,564,374	970,744	201,172
Long-term debt:									
Principal	775,000	195,000	690,000	744,156	683,615	460,000	-	-	-
Interest and fiscal charges	399,271	343,446	297,096	333,643	350,465	315,641	97	-	-
AEA flow-through	789,480	813,046	780,684	673,787	632,819	600,363	573,992	533,042	499,208
Total	\$ 22,537,591	24,988,157	20,099,976	19,758,206	22,330,028	23,060,530	16,683,666	15,309,992	13,905,217

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	\$ 185,931
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	757,041 *
			<u>942,972</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-G	460,990
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-GC	5,685
TITLE I SCHOOLS IN NEED OF ASSISTANCE (SINA)	84.010	FY 11	5,300
TITLE I SCHOOLS IN NEED OF ASSISTANCE (SINA)	84.010	FY 12	15,326
			<u>487,301</u>
MIGRANT EDUCATION - STATE GRANT PROGRAM	84.011	1701-M	<u>173,000</u>
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS (GEAR-UP)	84.334	FY 12	<u>25,633</u>
IMPROVING TEACHER QUALITY STATE GRANTS(TITLE IIA)	84.367	FY 12	<u>61,566</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VIA)	84.369	FY 12	<u>13,540</u>
EDUCATION JOBS FUND	84.410	FY 12	<u>5,991</u>
AREA EDUCATION AGENCY:			
IOWA DEPARTMENT OF EDUCATION:			
SPECIAL EDUCATION GRANTS TO STATES(PART B)	84.027	FY 12	<u>118,548</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>19,865</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS(TITLE III)	84.365	FY 12	<u>104,180</u>
TOTAL			<u>\$ 1,952,596</u>

\* - Includes \$77,679 in non-cash awards.

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Denison 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 general-purpose 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**

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

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

To the Board of Education of the  
Denison 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 Denison 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 February 15, 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 Denison Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Denison Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Denison Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Denison 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 item II-A-12 to be material weakness.

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

Denison 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 Denison 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 Denison Community School District and other parties to whom Denison 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 Denison 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.

February 15, 2013

**NOLTE, CORNMAN & JOHNSON P.C.**  
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Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Board of Education of  
Denison Community School District:

Compliance

We have audited the compliance of Denison Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Denison Community School District's major federal programs for the year ended June 30, 2012. Denison 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 Denison Community School District's management. Our responsibility is to express an opinion on Denison 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 Denison 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 Denison Community School District's compliance with those requirements.

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

Internal Control Over Compliance

The management of Denison 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 Denison 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Denison Community School District's internal control over compliance.

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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. However, as discussed below, 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 the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

A significant deficiency is deficiency, or combination of deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-B-12 to be significant deficiency.

Denison Community School District's responses to the 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 Denison 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 Denison Community School District and other parties to whom Denison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

February 15, 2013

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

**Part I: Summary of the Independent Auditor's Results**

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness and a significant deficiency in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered Programs
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - CFDA Number 84.010 - Title I - Schools in Need of Assistance (SINA)
  - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Denison Community School District did not qualify as a low-risk auditee.

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

**Part II: Findings Related to the Basic 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. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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 are always looking for ways to improve our internal controls and are willing to make changes that improve our situation.

Conclusion - Response accepted.

II-B-12 Negative Lunch Account Balances - It was noted during the audit that the Nutrition Fund is carrying numerous negative student and adult lunch account balances on the books.

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

Response - We have instituted new negative balance guidelines that will help to get negative student and staff lunch account balances collected.

Conclusion - Response accepted.

II-C-12 Gate Admissions - We noted during our audit that ticket takers were not reconciling the gate admissions after the event and that pre-numbered tickets were not used at basketball games.

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

Response - We will have our ticket takers reconcile gate admissions and prenumbered tickets will always be used.

Conclusion - Response accepted.

II-D-12 Agency Funds - We noted during our audit that the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the district serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District place certain assets into custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund."

The District appears to be improperly accounting for agency accounts. We noted drivers ed fees as well as summer school fees are reported in the Agency Fund and then in June these revenues are moved to the General Fund. These fees would appear to be District revenues and should be recorded in the General Fund upon receipt. Agency funds are to account for non-district revenue.

Recommendation - The District should review Chapter 9 of the LEA Administrative Manual which identifies funds and allowable revenues and expenses. The District should review each agency account for propriety and make the necessary transfers to the proper fund where monies can be appropriately received and expensed.

Response - We have reviewed Chapter 9 of the LEA Administrative Manual. Drivers Ed fees and summer school fees will be recorded in the General Fund upon receipt.

Conclusion - Response accepted.

II-E-12 Payroll Procedures - We noted during our audit that the District currently approves the wages that will be paid to employees and then prepares a form which has the expected calculated payroll for all employees. However, the actual wages paid specifically relating to hourly employees were substantially different from the amount calculated as 'expected'. This would appear to be caused by unintended overtime, or the calculation was not reasonable in the expectation compared to actual overtime.

Recommendation - We identified the overtime was approved in each case; however, the District should review the report and determine if there needs to be modifications. The District should also review the overtime to determine if it is practical to pay the overtime or add additional part time positions.

Response - Procedures will be put into place that will allow us to more accurately calculate 'expected' payroll with our hourly employees.

Conclusion - Response accepted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2012  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.010 - Title I - Schools in Need of Assistance (SINA)  
CFDA Number 84.010 - Title I - Grants to Local Educational Agencies  
Federal Award Year: 2012  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-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. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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 are always looking for ways to improve our internal controls and are willing to make changes that improve our situation. We do have a main operator for the bookkeeping computer but we are cross trained and receipts are initially accepted by a different person.

Conclusion - Response accepted.

III-B-12 Title I Grant - We noted that the District has a federal grant award of Title I, which the District did file the required reports in a timely manner. However, the reports submitted did not agree with the expenses recorded in the General Ledger.

Recommendation - It does not appear that the reports filed are the official record of the expenses paid for the grant. Grant expenditures should be monitored for propriety and if the expenses need to be reclassified because they were reported in an incorrect account, those transactions should be adjusted. However, it should be done systematically throughout the year, not at the year-end after the report is filed. The grant should be monitored throughout the year to compare the actual to the budgeted amounts. The grant final reports should be filed using the general ledger. The District should contact the Department of Education and amend the Title I report downward by \$10,939.19

Response - The DE has been contacted to amend the Title I report downward by \$10,939.19. The District continues to work on the accuracy in regards to the coding of bills. Matching revenue with expenditures is always the goal with each specific grant or project.

Conclusion - Response accepted.

**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 the amount budgeted.

IV-B-12 Questionable Disbursements - We noted during our audit a charge to the District credit card for alcohol. The purchase of alcohol does not appear to meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should seek reimbursement from the individual. In addition the District should, if they have not already communicate with individuals that alcoholic beverages are not allowable expenses and should never be included in a billing which the District will pay with a credit card. The person purchasing the liquor should request separate billing and pay directly for non-allowable purchases.

Response - The District has received reimbursement from the individual. The District has reiterated to employees that alcoholic beverages are not allowable expenses and should never be included in a billing which the District will pay with a credit card.

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 - No business transactions between the District and District officials were noted.

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 ELL students was overstated by a net of 17 students, the number of resident students was overstated by 2 students and the number of prekindergarten students was overstated by 1 student. This resulted in the number of students included in the District count being overstated by 6.24 students

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-12 Supplementary Weighting - We noted during our audit that a course offered during fiscal year 2011, which the District included on supplementary weighting count should have in fact not been counted as it was short of accreditation. This results in an adjustment to the supplementary weighting of -0.50.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

- IV-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-12 Categorical Funding - No instances were noted of categorical funding 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		798,993
Revenues:		
Sales tax revenues	1,488,594	
Other local revenues	3,044	1,491,638
		<u>2,290,631</u>
Expenditures/transfers out:		
School infrastructure construction	216,695	
Equipment	434,613	
Transfers to other funds:		
Other capital projects fund	45,234	
Debt service fund	802,113	1,498,655
		<u>1,498,655</u>
Ending balance		<u>791,976</u>

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