

PRESCOTT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012

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Prescott Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2011 Election)		
Marnie Cline	President	2013
Doug Birt	Vice President	2011
Deana Bohn	Board Member	2011
Randy Cooper	Board Member	2013
Don Gee	Board Member	2011
(After September 2011 Election)		
Marnie Cline	President	2013
Doug Birt	Vice President	2015
Steve Wainwright	Board Member	2015
Randy Cooper	Board Member	2013
Don Gee	Board Member	2015
<u>School Officials</u>		
Doug Latham	Superintendent	2012
Roy Stroud	Business Manager/Board Secretary	2012
Ahlers & Cooney, P.C.	Attorney	Indefinite

PRESCOTT 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
Prescott Community School District:

We have audited the accompanying financial statements of governmental activities, business type activities, each major fund and the aggregate remaining fund information of Prescott Community School District, Prescott, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as 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 basic 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Prescott Community School District at June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof 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 June 25, 2013 on our consideration of the Prescott 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 Governmental 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 on pages 7 through 15 and 38 through 39 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.

Members American Institute & Iowa Society of Certified Public Accountants

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prescott Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

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

NOLTE, CORNMAN & JOHNSON, P.C.

June 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prescott Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$1,149,315 in fiscal 2011 to \$1,102,079 in fiscal 2012, while General Fund expenditures decreased from \$1,050,415 in fiscal 2011 to \$813,473 in fiscal 2012. The District's General Fund balance increased from \$445,784 at June 30, 2011 to \$734,390 at June 30, 2012.
- The decrease in General Fund revenues was attributable to a decrease in local and federal sources. The decrease in expenditures was due to the decrease in instructional and support services expenditures.

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 Prescott 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 Prescott 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 Prescott Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

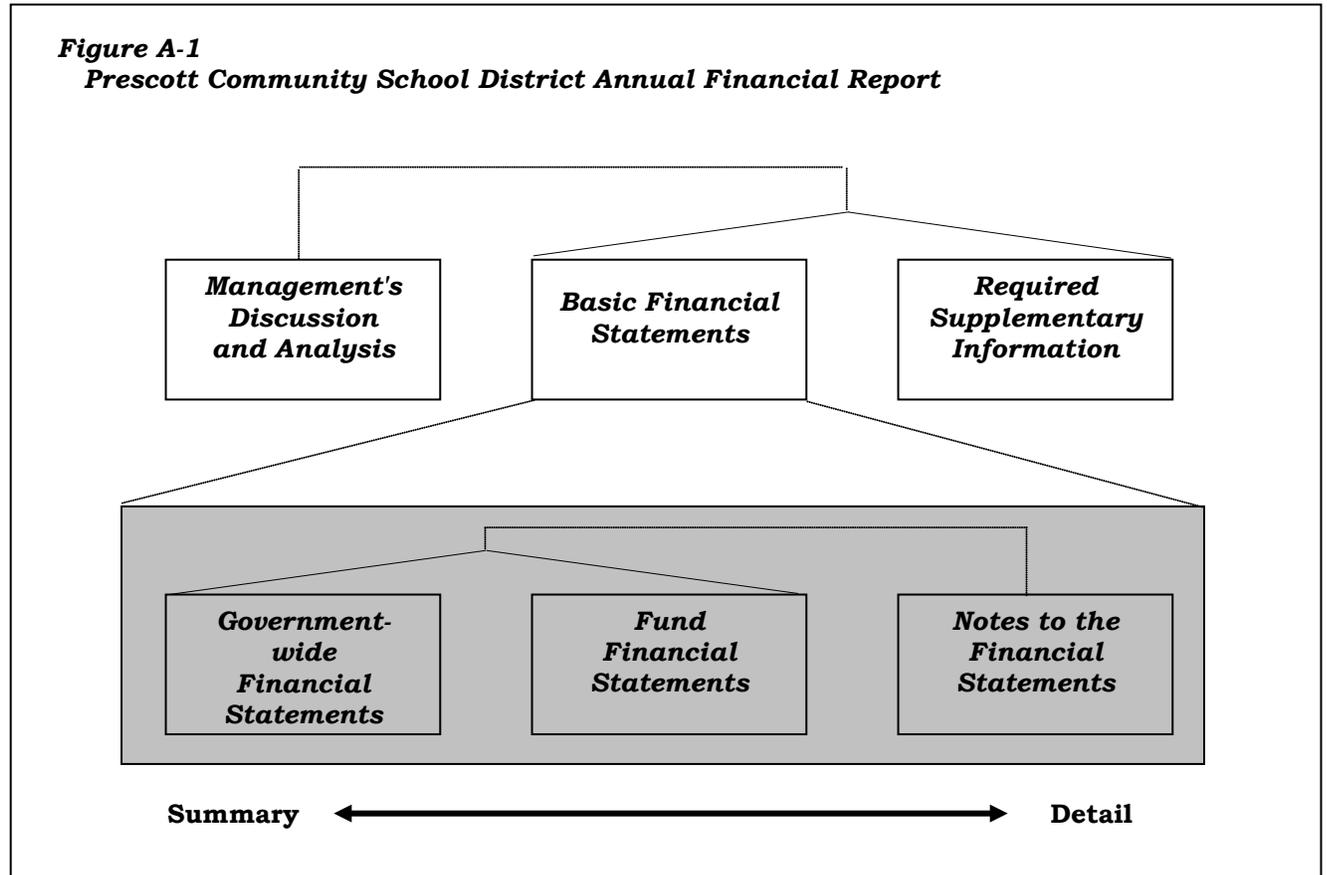


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	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: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects 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 two Enterprise Funds, the School Nutrition Fund and the Before and After School 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. This fund includes the Agency Fund.

- Agency Fund - The District administers and accounts for revenues collected and expenditures paid for the Prescott Parent-Teacher Organization.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 1,585,331	1,448,146	1,226	3,999	1,586,557	1,452,145	9.26%
Capital assets	254,667	267,715	6,568	212	261,235	267,927	-2.50%
Total assets	1,839,998	1,715,861	7,794	4,211	1,847,792	1,720,072	7.43%
Other liabilities	611,665	740,168	42,451	59,759	654,116	799,927	-18.23%
Total liabilities	611,665	740,168	42,451	59,759	654,116	799,927	-18.23%
Net assets:							
Invested in capital assets, net of related debt	254,667	267,715	6,568	212	261,235	267,927	-2.50%
Restricted	242,010	265,118	-	-	242,010	265,118	-8.72%
Unrestricted	731,656	442,860	(41,225)	(55,760)	690,431	387,100	78.36%
Total net assets	\$ 1,228,333	975,693	(34,657)	(55,548)	1,193,676	920,145	29.73%

The District's combined net assets increased by 29.73%, or \$273,531, from the prior year. The largest portion of the District's net assets is the unrestricted net assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$23,108, or 8.72% from the prior year. The decrease in restricted net assets is mainly a result of a decrease in fund balance for the Capital Projects Accounts.

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 \$303,331, or 78.36%. The increase in unrestricted net assets is mainly a result of the District's increase in General Fund carryover balance.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 33,886	22,265	23,591	17,778	57,477	40,043	43.54%
Operating grants, contributions and restricted interest	152,676	182,141	20,679	21,042	173,355	203,183	-14.68%
Capital grants, contributions and restricted interest	-	-	7,166	-	7,166	-	100.00%
General revenues:							
Property tax	504,385	567,635	-	-	504,385	567,635	-11.14%
Statewide sales, services and use tax	68,766	64,166	-	-	68,766	64,166	7.17%
Unrestricted state grants	383,829	350,233	-	-	383,829	350,233	9.59%
Non specific program federal grants	289	29,220	-	-	289	29,220	-99.01%
Unrestricted investment earnings	1,789	1,971	-	-	1,789	1,971	-9.23%
Other	18,152	11,041	-	88	18,152	11,129	63.11%
Total revenues	1,163,772	1,228,672	51,436	38,908	1,215,208	1,267,580	-4.13%
Program expenses:							
Governmental activities:							
Instruction	605,056	799,439	-	-	605,056	799,439	-24.31%
Support services	254,408	244,644	135	-	254,543	244,644	4.05%
Non-instructional programs	-	-	30,410	36,551	30,410	36,551	-16.80%
Other expenses	51,668	74,643	-	-	51,668	74,643	-30.78%
Total expenses	911,132	1,118,726	30,545	36,551	941,677	1,155,277	-18.49%
Change in net assets	252,640	109,946	20,891	2,357	273,531	112,303	-143.57%
Beginning net assets	975,693	865,747	(55,548)	(57,905)	920,145	807,842	13.90%
Ending net assets	\$ 1,228,333	975,693	(34,657)	(55,548)	1,193,676	920,145	29.73%

In fiscal 2012, property tax, statewide sales, services and use tax and unrestricted state grants account for 82.23% of the revenue from governmental activities while charges for services and operating grants and contributions account for 86.07% of the revenue from business type activities.

The District's total revenues were approximately \$1.22 million of which approximately \$1.17 million was for governmental activities and approximately \$0.05 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.13% decrease in revenues and an 18.49% decrease in expenses. Unrestricted state grants increased \$33,596 to help fund expenditures. The decrease in expenses is related to a decrease in the instructional and other expenditures functional areas.

Governmental Activities

Revenues for governmental activities were \$1,163,772 and expenses were \$911,132.

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	\$ 605,056	799,439	-24.31%	454,119	656,799	-30.86%
Support services	254,408	244,644	3.99%	254,408	222,803	14.19%
Other expenses	51,668	74,643	-30.78%	16,043	34,718	-53.79%
Totals	<u>\$ 911,132</u>	<u>1,118,726</u>	<u>-18.56%</u>	<u>724,570</u>	<u>914,320</u>	<u>-20.75%</u>

- The cost financed by users of the District's programs was \$33,886.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$152,676.
- The net cost of governmental activities was financed with \$504,385 in property tax, \$68,766 in statewide sales, services and use tax, \$383,829 in unrestricted state grants, \$289 in nonspecific program federal grants, \$1,789 in interest income and \$18,152 in other general revenues.

Business-Type Activities

Revenues of the District's business type activities were \$51,436 and expenses were \$30,545. The District's business type activities include the School Nutrition and Before and After School Funds. Revenues of these activities were comprised of charges for service and federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$973,666, which is more than last year's ending fund balances of \$707,978. The increase in combined fund balances is primarily a result of the increase in fund balance for the General Fund.

Governmental Fund Highlights

- The General Fund balance increased from \$445,784 to \$734,390. The decrease in General Fund revenues is a result of decreases in local and federal source revenues. The decrease in expenditures is due to decreases in the instructional and support services functions. However, General Fund revenues still exceeded expenditures during the year, thus ensuring the increase in General Fund balance.

- The Capital Projects Account balance decreased from a balance of \$236,513 at June 30, 2011 to \$204,943 at June 30, 2012. The decrease in fund balance was primarily a result of the district having increased capital outlay expenditures during fiscal 2012.

Proprietary Fund Highlights

- The School Nutrition Fund net assets increased from a deficit \$19,112 at June 30, 2011 to a deficit \$4,545 at June 30, 2012, representing an increase of 76.22%.
- Overall, net assets for the Before and After School Fund increased from a deficit \$36,436 at June 30, 2011 to a deficit \$30,112 at June 30, 2012, representing an increase of 17.36%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$269,048 less than budgeted revenues, a variance of 18.21%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, primarily due 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 \$261,235, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.56% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$33,873.

The original cost of the District's capital assets was \$956,917. Governmental funds account for \$933,076 with the remainder of \$23,841 in the Proprietary, School Nutrition Funds.

The largest monetary change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$41,472 at June 30, 2011, compared to \$50,823 reported at June 30, 2012. This significant increase resulted from capital additions made during the year exceeding the amount of depreciation taken.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 20,000	20,000	-	-	20,000	20,000	0.00%
Buildings	180,545	195,719	-	-	180,545	195,719	-7.75%
Land improvements	9,867	10,736	-	-	9,867	10,736	-8.09%
Machinery and equipment	44,255	41,260	6,568	212	50,823	41,472	22.55%
Total	\$ 254,667	267,715	6,568	212	261,235	267,927	-2.56%

Long-Term Debt

At June 30, 2012, the District had no long-term debt outstanding.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Roy Stroud, Business Manager/Board Secretary, Prescott Community School District, 813 1st Street, Prescott, Iowa, 50850.

PRESCOTT COMMUNITY SCHOOL DISTRICT

Basic Financial Statements

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

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 995,680	-	995,680
Receivables:			
Property tax:			
Delinquent	9,654	-	9,654
Succeeding year	554,561	-	554,561
Due from other funds	5,000	-	5,000
Due from other governments	20,436	-	20,436
Inventories	-	1,226	1,226
Capital assets, net of accumulated depreciation	254,667	6,568	261,235
TOTAL ASSETS	1,839,998	7,794	1,847,792
LIABILITIES			
Excess of warrants issued over bank balance	-	36,768	36,768
Due to other funds	-	5,000	5,000
Accounts payable	1,384	-	1,384
Salaries and benefits payable	39,534	521	40,055
Deferred revenue:			
Succeeding year property tax	554,561	-	554,561
Other	16,186	-	16,186
Unearned revenue	-	162	162
TOTAL LIABILITIES	611,665	42,451	654,116
NET ASSETS			
Invested in capital assets, net of related debt	254,667	6,568	261,235
Restricted for:			
Categorical funding	2,734	-	2,734
School infrastructure	199,223	-	199,223
Physical plant and equipment	5,720	-	5,720
Management levy purposes	34,308	-	34,308
Student activities	25	-	25
Unrestricted	731,656	(41,225)	690,431
TOTAL NET ASSETS	\$ 1,228,333	(34,657)	1,193,676

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants,	Capital Grants,	Govern- mental Activities	Business type Activities	Total
		for Services	Contributions and Restricted Interest	Contributions and Restricted Interest			
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 406,696	23,532	36,575	-	(346,589)	-	(346,589)
Special	65,377	-	2,718	-	(62,659)	-	(62,659)
Other	132,983	10,354	77,758	-	(44,871)	-	(44,871)
	<u>605,056</u>	<u>33,886</u>	<u>117,051</u>	<u>-</u>	<u>(454,119)</u>	<u>-</u>	<u>(454,119)</u>
Support services:							
Instructional staff	27,446	-	-	-	(27,446)	-	(27,446)
Administration	89,000	-	-	-	(89,000)	-	(89,000)
Operation and maintenance of plant	78,818	-	-	-	(78,818)	-	(78,818)
Transportation	59,144	-	-	-	(59,144)	-	(59,144)
	<u>254,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(254,408)</u>	<u>-</u>	<u>(254,408)</u>
Other expenses:							
AEA flowthrough	35,625	-	35,625	-	-	-	-
Depreciation(unallocated)*	16,043	-	-	-	(16,043)	-	(16,043)
	<u>51,668</u>	<u>-</u>	<u>35,625</u>	<u>-</u>	<u>(16,043)</u>	<u>-</u>	<u>(16,043)</u>
Total governmental activities	<u>911,132</u>	<u>33,886</u>	<u>152,676</u>	<u>-</u>	<u>(724,570)</u>	<u>-</u>	<u>(724,570)</u>
Business type activities:							
Support services:							
Administration	135	-	-	-	-	(135)	(135)
Non-instructional programs:							
Food service	30,410	17,267	20,679	7,166	-	14,702	14,702
Before and after school	-	6,324	-	-	-	6,324	6,324
Total business type activities	<u>30,545</u>	<u>23,591</u>	<u>20,679</u>	<u>7,166</u>	<u>-</u>	<u>20,891</u>	<u>20,891</u>
Total	<u>\$ 941,677</u>	<u>57,477</u>	<u>173,355</u>	<u>7,166</u>	<u>(724,570)</u>	<u>20,891</u>	<u>(703,679)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 459,453	-	459,453
Capital outlay					44,932	-	44,932
Statewide sales, services and use tax					68,766	-	68,766
Unrestricted state grants					383,829	-	383,829
Nonspecific program federal grants					289	-	289
Unrestricted investment earnings					1,789	-	1,789
Other general revenues					18,152	-	18,152
Total general revenues					<u>977,210</u>	<u>-</u>	<u>977,210</u>
Changes in net assets					252,640	20,891	273,531
Net assets beginning of year					975,693	(55,548)	920,145
Net assets end of year					<u>\$ 1,228,333</u>	<u>(34,657)</u>	<u>1,193,676</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 778,103	188,731	28,846	995,680
Receivables:				
Property tax				
Delinquent	8,307	860	487	9,654
Succeeding year	457,819	46,742	50,000	554,561
Due from other funds	-	-	5,000	5,000
Due from other governments	5,084	15,352	-	20,436
TOTAL ASSETS	\$ 1,249,313	251,685	84,333	1,585,331
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,384	-	-	1,384
Salaries and benefits payable	39,534	-	-	39,534
Deferred revenue:				
Succeeding year property tax	457,819	46,742	50,000	554,561
Other	16,186	-	-	16,186
Total liabilities	514,923	46,742	50,000	611,665
Fund balances:				
Restricted for:				
Categorical funding	2,734	-	-	2,734
School infrastructure	-	199,223	-	199,223
Physical plant and equipment	-	5,720	-	5,720
Management levy purposes	-	-	34,308	34,308
Student activities	-	-	25	25
Unassigned	731,656	-	-	731,656
Total fund balances	734,390	204,943	34,333	973,666
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,249,313	251,685	84,333	1,585,331

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds(page 20) \$ 973,666

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in in the governmental funds.

254,667

Net assets of governmental activities(page 18) \$ 1,228,333

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 434,012	113,698	25,441	573,151
Tuition	23,532	-	-	23,532
Other	30,295	-	-	30,295
State sources	465,169	-	-	465,169
Federal sources	71,625	-	-	71,625
Total revenues	<u>1,024,633</u>	<u>113,698</u>	<u>25,441</u>	<u>1,163,772</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	392,341	-	5,158	397,499
Special	62,965	-	-	62,965
Other	127,767	-	378	128,145
	<u>583,073</u>	<u>-</u>	<u>5,536</u>	<u>588,609</u>
Support services:				
Instructional staff	712	25,721	-	26,433
Administration	73,294	10,387	1,363	85,044
Operation and maintenance of plant	68,245	-	7,549	75,794
Transportation	52,524	-	2,341	54,865
	<u>194,775</u>	<u>36,108</u>	<u>11,253</u>	<u>242,136</u>
Capital Outlay	-	109,160	-	109,160
Other expenditures:				
AEA flowthrough	35,625	-	-	35,625
Total expenditures	<u>813,473</u>	<u>145,268</u>	<u>16,789</u>	<u>975,530</u>
Excess(Deficiency) of revenues over(under) expenditures	211,160	(31,570)	8,652	188,242
Other financing sources(uses):				
Insurance proceeds	77,446	-	-	77,446
Net change in fund balances	288,606	(31,570)	8,652	265,688
Fund balances beginning of year	445,784	236,513	25,681	707,978
Fund balances end of year	<u>\$ 734,390</u>	<u>204,943</u>	<u>34,333</u>	<u>973,666</u>

SEE NOTES TO FINANCIAL STATEMENTS.

PRESCOTT 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) \$ 265,688

*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:

Capital outlays	\$ 20,015	
Depreciation expense	<u>(33,063)</u>	<u>(13,048)</u>

Changes in net assets of governmental activities(page 19) \$ 252,640

SEE NOTES TO FINANCIAL STATEMENTS.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	Business Type Activities: Enterprise Funds		
	School Nutrition	Before and After School Fund	Total
<u>ASSETS</u>			
Current assets:			
Inventories	\$ 1,226	-	1,226
Capital assets, net of accumulated depreciation	6,568	-	6,568
TOTAL ASSETS	7,794	-	7,794
<u>LIABILITIES</u>			
Excess of warrants issued over bank balance	11,656	25,112	36,768
Due to other funds	-	5,000	5,000
Salaries and benefits payable	521	-	521
Unearned revenue	162	-	162
TOTAL LIABILITIES	12,339	30,112	42,451
<u>NET ASSETS</u>			
Invested in capital assets	6,568	-	6,568
Unrestricted	(11,113)	(30,112)	(41,225)
TOTAL NET ASSETS	\$ (4,545)	(30,112)	(34,657)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Funds		
	School Nutrition	Before and After School Fund	Total
OPERATING REVENUE:			
Local sources:			
Charges for service	\$ 17,267	6,324	23,591
OPERATING EXPENSES:			
Administration:			
Services	135	-	135
Non-instructional programs:			
Food service operations:			
Salaries	18,682	-	18,682
Benefits	3,195	-	3,195
Supplies	7,723	-	7,723
Depreciation	810	-	810
	30,410	-	30,410
TOTAL OPERATING EXPENSES	30,545	-	30,545
OPERATING INCOME(LOSS)	(13,278)	6,324	(6,954)
NON-OPERATING REVENUES:			
State sources	326	-	326
Federal sources	20,353	-	20,353
Capital contributions	7,166	-	7,166
TOTAL NON-OPERATING REVENUES	27,845	-	27,845
Change in net assets	14,567	6,324	20,891
Net assets beginning of year	(19,112)	(36,436)	(55,548)
Net assets end of year	\$ (4,545)	(30,112)	(34,657)

SEE NOTES TO FINANCIAL STATEMENTS.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2012

	Business Type Activities:		
	Enterprise Fund		
	School Nutrition	Before and After School Fund	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 17,429	-	17,429
Cash received from fees for the before and after school program	-	6,324	6,324
Cash payments to employees for services	(21,356)	-	(21,356)
Cash payments to suppliers for goods or services	(6,672)	-	(6,672)
Net cash provided by(used in) operating activities	(10,599)	6,324	(4,275)
Cash flows from non-capital financing activities:			
State grants received	326	-	326
Federal grants received	21,940	-	21,940
Net cash provided by non-capital financing activities	22,266	-	22,266
Net increase in cash and cash equivalents	11,667	6,324	17,991
Cash and cash equivalents at beginning of year	(23,323)	(31,436)	(54,759)
Cash and cash equivalents at end of year	\$ (11,656)	(25,112)	(36,768)
Reconciliation of operating income(loss) to net cash provide by(used in) operating activities:			
Operating income(loss)	\$ (13,278)	6,324	(6,954)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	819	-	819
Depreciation	810	-	810
Decrease in inventories	367	-	367
Increase in salaries and benefits payable	521	-	521
Increase in unearned revenue	162	-	162
Net cash provided by(used in) operating activities	\$ (10,599)	6,324	(4,275)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$819.

During the year ended June 30, 2012, the Nutrition Fund received capital contributions from the Physical Plant and Equipment Levy Fund of \$7,166.

SEE NOTES TO FINANCIAL STATEMENTS.

PRESCOTT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2012

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 3,487</u>
LIABILITIES	
Due to other groups	<u>\$ 3,487</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

Note 1. Summary of Significant Accounting Policies

The Prescott Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through sixth. Additionally, the District either operates a Before and After School program for residents of the District. The geographic area served includes the City of Prescott, Iowa, and the predominate agricultural territory in Adams 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 Government Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Prescott 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 Prescott Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the activities of the District, with omission of the fiduciary funds. 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 nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in the following categories:

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

Restricted net assets result when constraints placed on net asset 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 clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

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

The District also reports the following non-major proprietary funds:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The Enterprise, Before and After School Fund is used to account for the before and after school programs offered by the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund includes the following:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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.

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

Cash, Pooled Investments and Cash Equivalents - The cash balance 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 taxes in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes from the current year. 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes 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 the amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The Enterprise Fund inventory consists primarily of food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

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

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-40 years
Land improvements	20-40 years
Intangibles	2 or more years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2012, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2012.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents 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 revenues consist of unspent federal grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

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

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in other spendable classifications.

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

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Budgeting and Budgetary Control - The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$487,890 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.

Note 3. Due from and Due to Other Funds

At June 30, 2012 the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
Special Revenue: Management Levy	Enterprise: Before and After School Fund	<u>\$ 5,000</u>

The Enterprise: Before and After School Fund is repaying the Special Revenue Management Levy Fund for funds borrowed for salaries and benefits in the previous year.

Note 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 16,675	7,166	-	23,841
Less accumulated depreciation	16,463	810	-	17,273
Total accumulated depreciation	<u>\$ 212</u>	<u>6,356</u>	<u>-</u>	<u>6,568</u>

A. Beginning Balance Adjustment

At July 1, 2011, the machinery and equipment and accumulated depreciation for the business type activities were \$7,432 and \$7,220 respectively. To reflect the changes for the asset adjustment, the beginning balances for machinery and equipment and accumulated depreciation were adjusted to \$16,675 and \$16,463 respectively. The assets involved in the adjustment were fully depreciated so there was no change to the net beginning business type activities assets of \$212 on page 33 and the beginning total net assets of a deficit \$55,548 on pages 19 and 25.

In prior years, the District maintained an incomplete capital asset listing for the business type activities where fully depreciated assets had been removed from the listing. The beginning balance adjustment was needed to place these assets back onto the capital asset listing for the business type activities.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 20,000	-	-	20,000
Total capital assets not being depreciated	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>20,000</u>
Capital assets being depreciated:				
Buildings	551,461	-	-	551,461
Land improvements	15,949	-	-	15,949
Machinery and equipment	325,651	20,015	-	345,666
Total capital assets being depreciated	<u>893,061</u>	<u>20,015</u>	<u>-</u>	<u>913,076</u>
Less accumulated depreciation for:				
Buildings	355,742	15,174	-	370,916
Land improvements	5,213	869	-	6,082
Machinery and equipment	284,391	17,020	-	301,411
Total accumulated depreciation	<u>645,346</u>	<u>33,063</u>	<u>-</u>	<u>678,409</u>
Total capital assets being depreciated, net	<u>247,715</u>	<u>(13,048)</u>	<u>-</u>	<u>234,667</u>
Governmental activities capital assets, net	<u>\$ 267,715</u>	<u>(13,048)</u>	<u>-</u>	<u>254,667</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 13,984
Support services:	
Administration	739
Operation and maintenance of plant	120
Transportation	2,177
	<hr/>
	17,020
Unallocated depreciation	16,043
	<hr/>
Total governmental activities depreciation expense	\$ 33,063
	<hr/>
Business type activities:	
Food services	\$ 810
	<hr/>

Note 5. Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$20,787, \$23,629 and \$21,845 respectively, equal to the required contributions for each year.

Note 6. 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.

Note 7. 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 \$35,625 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.

Note 8. Deficit Unrestricted Net Assets

The District had deficit unrestricted net assets in the Enterprise, School Nutrition Fund of \$11,113 and total deficit net assets of \$4,545. The District also had deficit unrestricted net assets in the Enterprise, Before and After School Fund of \$30,112.

Note 9. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
Statewide voluntary preschool	\$ 1,500
Market factor	483
Professional development for model core curriculum	<u>751</u>
Total	<u><u>\$ 2,734</u></u>

PRESCOTT COMMUNITY SCHOOL DISTRICT

Required Supplementary Information

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual	Actual			Variance
Revenues:						
Local sources	\$ 626,978	23,591	650,569	708,885	708,885	(58,316)
State sources	465,169	326	465,495	652,205	652,205	(186,710)
Federal sources	71,625	20,353	91,978	116,000	116,000	(24,022)
Total revenues	<u>1,163,772</u>	<u>44,270</u>	<u>1,208,042</u>	<u>1,477,090</u>	<u>1,477,090</u>	<u>(269,048)</u>
Expenditures/Expenses:						
Instruction	588,609	-	588,609	951,200	951,200	362,591
Support services	242,136	135	242,271	427,500	427,500	185,229
Non-instructional programs	-	30,410	30,410	80,000	80,000	49,590
Other expenditures	144,785	-	144,785	190,355	190,355	45,570
Total expenditures/expenses	<u>975,530</u>	<u>30,545</u>	<u>1,006,075</u>	<u>1,649,055</u>	<u>1,649,055</u>	<u>642,980</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	188,242	13,725	201,967	(171,965)	(171,965)	373,932
Other financing sources, net	<u>77,446</u>	<u>7,166</u>	<u>84,612</u>	-	-	<u>84,612</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/ expenses	265,688	20,891	286,579	(171,965)	(171,965)	458,544
Balances beginning of year	<u>707,978</u>	<u>(55,548)</u>	<u>652,430</u>	<u>711,709</u>	<u>711,709</u>	<u>(59,279)</u>
Balances end of year	<u>\$ 973,666</u>	<u>(34,657)</u>	<u>939,009</u>	<u>539,744</u>	<u>539,744</u>	<u>399,265</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESCOTT 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 Government Accounting Standards 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. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function 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.

PRESCOTT COMMUNITY SCHOOL DISTRICT

Supplementary Information

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

	Special Revenue		
	Management Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 28,821	25	28,846
Receivables:			
Property tax:			
Delinquent	487	-	487
Succeeding year	50,000	-	50,000
Due from other funds	5,000	-	5,000
TOTAL ASSETS	\$ 84,308	25	84,333
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 50,000	-	50,000
Fund Balances:			
Restricted for:			
Management levy purposes	34,308	-	34,308
Student activities	-	25	25
Total fund balances	34,308	25	34,333
TOTAL LIABILITIES AND FUND BALANCES	\$ 84,308	25	84,333

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 25,441	-	25,441
EXPENDITURES:			
Current:			
Instruction			
Regular	5,158	-	5,158
Other	-	378	378
Support services:			
Administration	1,363	-	1,363
Operation and maintenance of plant	7,549	-	7,549
Transportation	2,341	-	2,341
TOTAL EXPENDITURES	16,411	378	16,789
Net change in fund balances	9,030	(378)	8,652
Fund balances beginning of year	25,278	403	25,681
Fund balances end of year	\$ 34,308	25	34,333

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 183,871	4,860	188,731
Receivables:			
Property tax:			
Delinquent	-	860	860
Succeeding year	-	46,742	46,742
Due from other governments	15,352	-	15,352
TOTAL ASSETS	\$ 199,223	52,462	251,685
LIABILITIES AND FUND BALANCES			
Liabilities:			
Succeeding year property tax	\$ -	46,742	46,742
Fund balances:			
Restricted for:			
School infrastructure	199,223	-	199,223
Physical plant and equipment	-	5,720	5,720
Total fund balances	199,223	5,720	204,943
TOTAL LIABILITIES AND FUND BALANCES	\$ 199,223	52,462	251,685

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 68,766	44,932	113,698
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	-	25,721	25,721
Administration	-	10,387	10,387
Capital outlay	102,914	6,246	109,160
TOTAL EXPENDITURES	102,914	42,354	145,268
Net change in fund balances	(34,148)	2,578	(31,570)
Fund balances beginning of year	233,371	3,142	236,513
Fund balances end of year	\$ 199,223	5,720	204,943

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Pre-school	\$ 158	-	158	-
Student accounts	94	-	94	-
Band	151	-	126	25
TOTALS	\$ 403	-	378	25

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESCOTT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITES
AGENCY FUND
YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 3,716	-	229	3,487
LIABILITIES				
Due to other groups	\$ 3,716	-	229	3,487

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PRESCOTT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues:										
Local sources:										
Local tax	\$ 573,151	631,801	598,441	533,168	511,927	476,570	444,195	396,154	426,058	511,255
Tuition	23,532	6,515	8,163	11,966	42,939	30,453	28,604	15,304	37,595	41,294
Other	30,295	28,762	7,245	14,089	57,658	32,657	29,227	56,148	16,046	11,616
Intermediate sources	-	-	-	-	-	-	-	-	150	-
State sources	465,169	435,020	467,984	549,505	519,182	508,711	522,902	512,440	467,726	463,612
Federal sources	71,625	126,574	154,145	139,941	93,730	108,413	66,904	47,684	79,663	67,230
Total	\$ 1,163,772	1,228,672	1,235,978	1,248,669	1,225,436	1,156,804	1,091,832	1,027,730	1,027,238	1,095,007
Expenditures:										
Instruction:										
Regular	\$ 397,499	529,665	485,382	556,951	559,500	560,175	467,916	475,073	453,652	512,219
Special	62,965	136,045	192,750	127,556	124,912	122,440	129,482	140,840	129,003	118,326
Other	128,145	126,135	357	17,749	5,451	2,135	8,524	45,329	62,309	57,289
Support services:										
Student	-	-	-	-	-	-	-	-	-	-
Instructional staff	26,433	21,557	52,760	157,589	127,546	115,130	67,490	26,287	5,171	3,142
Administration	85,044	80,807	103,587	120,462	189,028	167,701	163,985	152,885	140,753	138,267
Operation and maintenance of plant	75,794	85,528	74,366	74,034	71,335	72,489	68,192	58,444	58,242	57,708
Transportation	54,865	48,587	49,051	57,339	64,349	64,050	74,337	55,631	52,619	118,351
Non-instructional programs	-	-	-	-	-	-	-	288	236	359
Capital outlay	109,160	14,082	13,219	28,831	83,286	43,236	73,489	40,522	101,136	18,467
Other expenditures:										
AEA flow-through	35,625	39,925	40,616	36,342	35,544	34,871	34,117	33,187	32,909	35,085
Total	\$ 975,530	1,082,331	1,012,088	1,176,853	1,260,951	1,182,227	1,087,532	1,028,486	1,036,030	1,059,213

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

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

To the Board of Education of the
Prescott 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 Prescott 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 June 25, 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 Prescott Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Prescott 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 Prescott Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Prescott 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, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-12 through I-C-12 to be material weaknesses.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prescott Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

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

June 25, 2013

PRESCOTT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Internal Controls - One of the most important responsibilities of the District is to maintain a system of internal control for efficient operation. The District's Board of Directors is responsible for making policies and procedures that safeguard District assets, ensure District financial information is accurate and ensure employees are complying with laws and regulations pertinent to the District. The successful operation of the District's internal controls is dependent upon having sufficient and properly trained management and personnel to ensure that the policies and procedures formed by the Board of Directors are being followed. From our audit it appears the District's internal control structure has several breakdowns, some of which are apparent in the comments that follow in the remainder of this report.

Recommendation - The District's Board of Directors and management staff should review policies and procedures in place and evaluate the effectiveness of internal controls currently in place. Changes in the internal control structure will have to be made for the District to gain full effectiveness of internal control. Additional training may be necessary to achieve this goal.

Response - Board policies are reviewed frequently. The District has a limited number of people to handle transactions but distribute responsibilities as much as possible.

Conclusion - Response acknowledged.

I-B-12 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Capital assets - purchasing, recording and reconciling.
- 7) Wire transfers - processing and approving.

- 8) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 9) Transfers - preparing and approving.
- 10) Financial reporting - preparing, reconciling and approving.
- 11) Computer systems - performing all general accounting functions and controlling all data input and output.
- 12) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - The District is continually seeking ways to improve segregation of duties with the current staff

Conclusion - Response acknowledged.

I-C-12 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited Inc. This training helps in providing instruction as well as promotes networking of other accounting personnel.

Necessary adjustments to be made for proper recognition of property tax, SAVE tax and intergovernmental receivables were not completed properly thus causing misstatements in the amounts of revenue recognized. Fiscal year activity for the District's PTO was not recorded during the year. The District did not make adjustments to the financial statements for the State of Iowa's seizure of nutrition fund reimbursements and SAVE taxes for nonpayment of Iowa tax withholdings. Bank reconciliations were not being completed timely by District staff. There were no adjustments made in the Nutrition Fund for changes in inventories, capital assets and student lunch account balances at year end. Adjustments for governmental capital asset additions and deletions were not completed by the District until after the District's Certified Annual Report had been filed with the Iowa Department of Education.

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

Response -The District will seek additional training to facilitate this recommendation.

Conclusion - Response accepted.

I-D-12 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger on a monthly basis.

Recommendation - The District should reconcile bank statement balances to financial statement balances on a monthly basis.

Response - The District will be sharing the superintendent with Creston CSD in the next year. Additional supervision and monthly review by the superintendent will assure that the bank reconciliations are completed timely.

Conclusion - Response accepted.

I-E-12 Payroll Tax Reporting - We noted during our audit, that the District was collecting Iowa tax withholdings from employees' paychecks but not remitting the withholdings to the State of Iowa in a timely manner. As a result, the State of Iowa seized federal Nutrition Fund meal reimbursements of \$3,856.47 and Statewide Sales Service and Use Tax payments of \$9,306.10 as payment for the Iowa tax withholdings liability.

As of May 2013, the State has refunded all but \$1,771.43 of federal Nutrition Fund meal reimbursements and \$3,633.01 of statewide sales, services and use tax payments to the District. The State of Iowa is holding these payments because the District has not filed the Iowa withholding report with the Department of Revenue for the 4th quarter of 2011.

Recommendation - The District should contact the Iowa Department of Revenue and work through with an agent to determine the amount of unpaid taxes. The District should ask for abatement of penalties and/or contact their insurance agent for coverage under the District's errors and omissions policy. The District needs to change procedures to ensure that payroll taxes are paid timely. The District needs to file the Iowa withholding report for the 4th quarter of 2011 with the Iowa Department of Revenue.

Response - The District is current on all subsequent payments to the State of Iowa for payroll withholding taxes. In the following year, there will be changes in duties that will ensure that all payroll tax reporting and payments are completed timely. The District will file the 4th quarter of 2011 Iowa withholding report immediately.

Conclusion - Response accepted.

I-F-12 Nutrition Fund Meal Account Balances - We noted during our audit that the Nutrition Fund meal account balances included an account labeled "Prescott Preschool." In discussions with District officials, it was determined that this account is used by the District to account for the cost of meals served by the Nutrition Fund for children attending the District's preschool program.

As of the date of this audit report, the balance in the "Prescott Preschool" account was \$7,935, of which \$3,226.15 is for meals served during fiscal year 2012 and the remaining \$4,708.85 is for meals served during fiscal year 2013.

Recommendation - The General Fund should reimburse the Nutrition Fund \$7,935 for the cost of meals served to children attending the District's preschool program.

Response - An adjusting entry of \$3,226.15 was made from the General Fund to the Nutrition Fund for the fiscal year 2012 balance and is reflected in this report's financial statements. An adjusting entry of \$4,708.85 will be made in fiscal year 2013 from the General Fund to the Nutrition Fund for the cost of meals served to the preschool children.

Conclusion - Response accepted.

I-G-12 IASB Insurance Dividend - During the fiscal year 2011 audit, it was noted that the property insurance dividend from IASB was received in the General Fund in the amount of \$1,505. During the fiscal year 2012 audit, it was noted that the property insurance dividend from IASB was received in the General Fund in the amount of \$1,407. Historically, the District has paid premiums for property insurance from the Management Levy Fund. Therefore, it is logical that when the District received the property insurance dividend, it should have been recorded in the Management Levy Fund.

Recommendation - The District needs to make a corrective transfer from the General Fund to the Management Levy Fund for \$2,912.

Response - The corrective transfer was made in fiscal year 2013.

Conclusion - Response accepted.

I-H-12 Corrective Transfer - During the fiscal year 2011 audit, we noted that fees collected in the amount of \$3,891.24 for the District's Before and After School Program were recorded properly into the Enterprise: Before & Afterschool Fund; however, expenditures for the program were paid from the General Fund. During the fiscal year 2012 audit, we noted that fees collected in the amount of \$4,406.36 for the District's Before and After School Program were recorded properly into the Enterprise: Before & Afterschool Fund; however, expenditures for the program were paid from the General Fund.

Recommendation - The District needs to make a corrective transfer from the Enterprise: Before & After School Fund to the General Fund in the amount of \$8,297.60 to repay the General Fund for expenditures paid that should have been paid by the Before & After School Fund.

Response - The corrective transfer was made in fiscal year 2013.

Conclusion - Response accepted.

I-I-12 Petty Cash - We noted during our audit that the District maintains a petty cash box mainly for postage that is kept in a locked drawer in the central office. The District has four employees that have access to petty cash but it is apparent there is not one specific employee who is responsible for review, reconciliation and subsequent recording of expenditures that pass through petty cash. In discussion with district officials, the amount that should be accounted for in petty cash should be \$68.81; however the reconciled amount for petty cash was \$220.29.

Recommendation - The District needs to assign one employee that should act as the custodian of petty cash. The custodian should be responsible for reviewing expenditures from petty cash and reconciling the receipts to the actual cash amount that should be in petty cash to prevent variances. Expenses paid from petty cash should be given to the District's Business Manager for recording in the general ledger. Petty cash should be maintained on an imprest basis. The District should deposit unrecorded revenues maintained in the petty cash.

Response - Petty cash will be assigned to one employee and reconciled monthly to assure accuracy.

Conclusion - Response accepted.

I-J-12 Improving Teacher Quality State Grants(Title IIA) - We noted during our audit, that it appeared the District failed to file the final report for Title IIA funding with the Iowa Department of Education. As a result, the District did not receive \$3,229.72 in funding for expenditures incurred by the District.

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

Response - The District has contacted the state and will continue to follow up.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - District disbursements for the year ended June 30, 2012, did not exceed the amount budgeted.

II-B-12 Questionable Disbursements - We noted no expenditures that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-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.

II-D-12 Business Transactions - No business transactions between the District and District officials were noted.

II-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.

II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - In the future the District will publish all minutes within two weeks as required.

Conclusion - Response accepted.

II-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Iowa Department of Education.

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

II-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.

II-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.

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

II-L-12 Financial Condition - At June 30, 2012, the District had deficit unrestricted net assets in the Enterprise, School Nutrition Fund of \$11,113 and total deficit net assets of \$4,545. The District also had deficit unrestricted net assets in the Enterprise, Before and After School Fund of \$30,112.

Recommendation - The District should develop workout plans for each fund to return them to positive balances. The District should consider ceasing operations of the Before and After School Fund as the fund has been a deficit since FY 2007.

Response - The board is aware of the deficits and is working to correct these negative funds.

Conclusion - Response acknowledged. It appears that the District's Board of Directors has not attempted to develop a workout plan or an alternative way to eliminate the deficit in the Before and After School Fund. The District has recorded expenses for the Before and After School Fund in the General Fund(See Comment I-H-12), however this would not appear to be a workout plan.

II-M-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 fiscal year 2012 audit.

Beginning Balance	\$ 233,371
Revenues:	
Sales tax revenues	68,766
	<u>302,137</u>
Expenditures:	
Equipment	102,914
	<u>102,914</u>
Ending balance	<u>\$ 199,223</u>

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

II-N-12 Payroll Authorization - We noted during our audit, the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - The District will obtain written authorization from each employee who wants to receive a payroll check by mail.

Conclusion - Response accepted.

II-O-12 Published Payroll - We noted during our audit that the District did not publish the salaries of all employees as required by Chapter 279.35 of the Code of Iowa.

Recommendation - The District should review its procedures to ensure that employees' salaries are published on an annual basis. The District should publish a list of salaries as required by Chapter 279.35 of the Code of Iowa.

Response - Salaries have been sent to the newspaper and proof of publication will be sent to the auditors when received.

Conclusion - Response accepted.

I-P-12 Prescott Parent-Teacher Organization(PTO) - We noted during our audit, that the Prescott PTO uses the District's Federal Identification Number for an account at Okey Vernon 1st National Bank. The bank statements, revenues and expenditures for the PTO are processed by an individual that is not an employee of the District. This results in numerous compliance issues for the District which includes the following:

- 1) Chapter 12C.2 of the Code of Iowa requires that the District's Board of Directors shall approve all financial institutions that will be depositories of the District. The name of the financial institutions and maximum amount of deposits held by each institution shall be entered of record in the District's Board minutes. Currently, Okey Vernon 1st National Bank is not a Board approved depository of the District.
- 2) Chapter 279.29 of the Code of Iowa requires that the District's Board of Directors shall audit and allow all claims against the District. Currently, officials of the PTO audit and allow all claims.
- 3) Chapter 291.1 and Chapter 291.8 of the Code of Iowa require the Board President and Board Secretary to sign all checks. Pursuant to Chapter 291.1, the Board President may designate an individual to sign warrants on his/her behalf. However, pursuant to Chapter 291.8, the Board Secretary may not designate an individual to sign on his/her behalf. Currently, PTO officials are signing all checks.
- 4) Chapter 291.6 of the Code of Iowa requires the Board Secretary to preserve and file all copies of pertinent paperwork related to the business of the District. Currently, the individual that is not an employee of the District is retaining bank statements and other financial information relevant to the PTO.
- 5) Chapter 291.7 of the Code of Iowa requires the Board Secretary to file monthly financial statements and reports with the District's Board of Directors. To effectively govern, the District's Board of Directors must have current information for all District funds. Currently, the District's Board of Directors does not receive financial information related to the PTO.

Recommendation - Because the PTO is operating under the District's Federal Identification Number, the PTO account is considered a District asset that should be following the same Code of Iowa requirements as well as internal controls that the District follows.

The District should contact officials of the PTO and request the bank statements and all financial records to be turned over to the District. The District's Board of Directors should approve Okey Vernon 1st National Bank as a depository of the District or move the account to another bank that is approved by the Board of Directors.

Response - The District's Board of Directors has approved Okey Vernon 1st National Bank as an official depository. The District will be receiving all bank statements from the bank in the future. Necessary adjustments will be made during the year for the PTO account.

Conclusion - Response accepted.

- II-Q-12 Interfund Loans - We noted during our audit that the District has an interfund loan that was on the balance sheet in the prior year and still on the current year balance sheets. As of June 30, 2012, the District has a loan between the Special Revenue: Management Levy Fund and Enterprise: Before and After School Fund that has not been repaid.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must seek external borrowing options to repay the interfund loans.

Recommendation - The District should seek and obtain external borrowings to comply with the declaratory ruling in order to repay the interfund loan.

Response - The District is aware of the declaratory order issued by the Department of Education, but feels that with the financial condition of the District, issuing anticipatory warrants for the Before and After School Fund to repay the Management Fund would impose unnecessary issuance and origination costs to the District.

Conclusion - Response acknowledged.