

PRESTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Craig Thines	President	2011
Sally Marvin	Vice President	2011
Steve Peterson	Board Member	2011
Jeff Evans	Board Member	2013
Patti Hoffman	Board Member	2013
<b>(After September 2011 Election)</b>		
Craig Thines	President	2015
Sally Marvin	Vice President	2015
Joe Kilburg	Board Member	2015
Jeff Evans	Board Member	2013
Patti Hoffman	Board Member	2013
<b>School Officials</b>		
Robert Lagerblade	Superintendent	2012
Adam Crigger	Business Manager	2012
Linda Skoff	Board Secretary	2012
Brian Gruhn	Attorney	2012

**Preston Community School District**

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

**Certified Public Accountants**  
**(A Professional Corporation)**  
**117 West 3rd Street North, Newton, Iowa 50208-3040**  
**Telephone (641) 792-1910**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the Preston Community School District, Preston, Iowa as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Preston Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2013 on our consideration of the Preston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 44 through 46 be presented to supplement the basic Standards Board which considers it to be an essential part of the

financial reporting for the placing the basic 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to the basic financial statements. We do not express and opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Preston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for eight years ending June 30, 2011 (which are not presented herein) and unqualified opinions were expressed on those financial statements. Supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.

March 21, 2013

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

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

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,510,694 in fiscal 2011 to \$3,768,298 in fiscal 2012, while General Fund expenditures increased from \$3,170,328 in fiscal 2011 to \$3,442,434 in fiscal 2012. The District's General Fund balance increased from \$717,260 at June 30, 2011 to \$1,043,124 at June 30, 2012, a 45.43% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state revenues. The increase in expenditures was primarily due to an increase in the instructional functional area.
- The District's solvency ratio increased as compared to fiscal 2011. At June 30, 2012 the District's solvency ratio was 25.54% as compared to 18.76% at June 30, 2011.
- The district's unspent balance increased from \$340,370 to \$691,280.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Preston Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Preston Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the non-major funds.

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

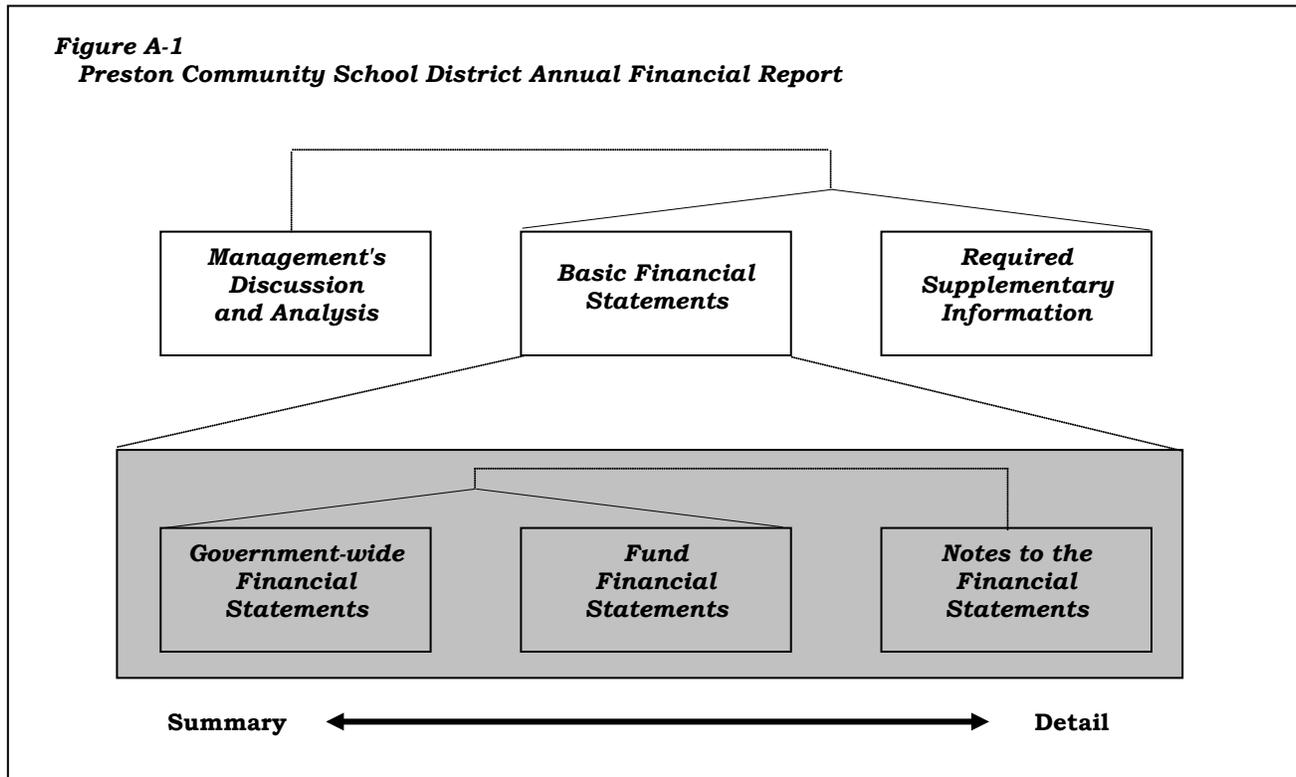


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

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

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

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

The District's internal service fund (another type of proprietary fund) are the same as governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund: Self-funded Insurance.

The required financial statements for the proprietary funds include a statement of 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 is the Private-Purpose Trust Fund and Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds through which the District administers and accounts for certain outside organizations.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 3,457,357	3,018,553	63,296	54,481	3,520,653	3,073,034	14.57%
Capital assets	906,560	936,336	5,505	6,902	912,065	943,238	-3.30%
Total assets	4,363,917	3,954,889	68,801	61,383	4,432,718	4,016,272	10.37%
Long-term obligations	54,725	96,690	475	313	55,200	97,003	-43.09%
Other liabilities	1,432,141	1,488,481	861	1,978	1,433,002	1,490,459	-3.85%
Total liabilities	1,486,866	1,585,171	1,336	2,291	1,488,202	1,587,462	-6.25%
Net assets:							
Invested in capital assets, net of related debt	894,505	912,225	5,505	6,902	900,010	919,127	-2.08%
Restricted	1,080,287	816,758	-	-	1,080,287	816,758	32.27%
Unrestricted	902,259	640,735	61,960	52,190	964,219	692,925	39.15%
Total net assets	\$ 2,877,051	2,369,718	67,465	59,092	2,944,516	2,428,810	21.23%

The District's combined net assets increased by 21.23%, or \$515,706, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets

increased \$263,529 or 32.27% from the prior year. This increase was primarily a result of the increase in the Capital Projects Fund balance.

Unrestricted net assets—are the part of net assets that can be used to finance day to day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$271,294, or 39.15% over the prior year. This was due primarily to the increase in the General Fund balance.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 828,290	347,771	95,942	74,711	924,232	422,482	118.76%
Operating grants and contributions and restricted interest	274,864	341,967	74,600	55,308	349,464	397,275	-12.03%
General revenues:							
Local tax	1,156,689	1,255,493	-	-	1,156,689	1,255,493	-7.87%
Statewide sales, services and use tax	252,475	229,515	-	-	252,475	229,515	10.00%
Unrestricted state grants	1,740,603	1,597,398	-	-	1,740,603	1,597,398	8.96%
Nonspecific program federal grants	987	99,872	-	-	987	99,872	100.00%
Unrestricted investment earnings	1,766	3,749	20	17	1,786	3,766	-52.58%
Other general revenues	183,023	154,894	1,275	591	184,298	155,485	18.53%
Total revenues and transfers	4,438,697	4,030,659	171,837	130,627	4,610,534	4,161,286	10.80%
Program expenses:							
Governmental activities:							
Instruction	2,608,700	2,353,534	19,649	4,773	2,628,349	2,358,307	11.45%
Support services	1,163,383	1,023,186	9,936	19,357	1,173,319	1,042,543	12.54%
Non-instructional programs	-	-	133,879	108,502	133,879	108,502	23.39%
Other expenses	159,281	181,501	-	-	159,281	181,501	-12.24%
Total expenses	3,931,364	3,558,221	163,464	132,632	4,094,828	3,690,853	10.95%
Change in net assets	507,333	472,438	8,373	(2,005)	515,706	470,433	9.62%
Beginning net assets	2,369,718	1,897,280	59,092	61,097	2,428,810	1,958,377	24.02%
Ending net assets	\$ 2,877,051	2,369,718	67,465	59,092	2,944,516	2,428,810	21.23%

In fiscal 2012, local tax, statewide sales, services and use tax and unrestricted state grants account for 70.96% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.25% of the revenue from business type activities.

The District's total revenues were \$4,610,534 of which \$4,438,697 was for governmental activities and \$171,837 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10.80% increase in revenues and a 10.96% increase in expenses. The increase in expenses is related to an increase in the instructional and support services functional areas.

## Governmental Activities

Revenues for governmental activities were \$4,438,697 and expenses were \$3,931,364.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 2,608,700	2,353,534	-10.84%	1,630,248	1,803,720	-9.62%
Support services	1,163,383	1,023,186	13.70%	1,160,653	1,016,301	14.20%
Other expenses	159,281	181,501	-13.95%	37,309	48,462	-23.01%
Totals	\$ 3,931,364	3,558,221	10.49%	2,828,210	2,868,483	-1.40%

- A portion of the cost financed by users of the District's programs was \$828,290.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$274,864.
- The net cost portion of governmental activities was financed with \$1,156,689 in property taxes, \$252,475 in statewide sales, services and use tax, \$1,740,603 in unrestricted state grants, \$987 in nonspecific program federal grants, \$1,766 in unrestricted investment earnings and \$183,023 in other general revenues.

## Business type Activities

Revenues of the District's business type activities were \$171,837 and expenses were \$163,464. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

As the District completed the year, its governmental funds reported combined fund balances of \$2,020,438 over last year's ending fund balances of \$1,525,783.

### Governmental Fund Highlights

The District's increase in General Fund financial position is the result of many factors. Local revenues increased by \$274,156 or 18.45% and state revenues increased by \$124,773 or 6.93%. The District's General Fund expenditures increased by \$272,106 or 8.58%. The increase was primarily due to negotiated salaries and benefits.

The Capital Projects Fund balance increased from a balance of \$621,746 at the beginning of the fiscal year 2012 to \$730,021. This increase was the result of statewide sales, services and use tax revenues in excess of capital expenditures.

### Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$59,092 at June 30, 2011 to \$67,465 at June 30, 2012 representing an increase of 14.17% over the prior year.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$285,172 more than budgeted revenues, a variance of 6.59%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

In spite of the District's budgetary practices, the certified budget was exceeded in the support services and the non-instructional functional areas.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the District had invested \$912,065, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See figure A-6) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$97,853.

The original cost of the District's capital assets was \$3,767,173 Governmental funds account for \$3,694,739 with the remainder of \$72,434 accounted for in the Proprietary School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$151,619 at June 30, 2012, compared to \$161,758 reported at June 30, 2011. The decrease is due to depreciation expense taken during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 11,470	11,470	-	-	11,470	11,470	0.00%
Buildings	593,293	620,463	-	-	593,293	620,463	-4.58%
Land improvements	151,619	161,758	-	-	151,619	161,758	-6.69%
Machinery and equipment	150,178	142,645	5,505	6,902	155,683	149,547	3.94%
Total	\$ 906,560	936,336	5,505	6,902	912,065	943,238	-3.30%

### Long-Term Debt

At year-end, the District had \$55,200 in other long-term debt outstanding. This represents a decrease of 43.09%. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District also had outstanding Revenue Bonds payable from the Capital Projects: Statewide Sales Services and Use Tax Fund of \$12,055 at June 30, 2012.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$8,989 at June 30, 2012.

The District had a net OPEB liability of \$34,156 at June 30, 2012.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Revenue bonds	\$ 12,055	24,111	-	-	12,055	24,111	-50.00%
Early retirement	8,989	50,273	-	-	8,989	50,273	-82.12%
Net OPEB liability	33,681	22,306	475	313	34,156	22,619	51.01%
Total	\$ 54,725	96,690	475	313	55,200	97,003	-43.09%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Continued patterns of declining enrollment are creating a stagnant revenue stream from the state. The District is continuing to look for solutions to help cope with the stagnant funding.
- The national recession and state budget struggles have also kept allowable growth rates to a minimum in recent years. With more uncertainty looming, it is hard to predict allowable growth rates for future funding. This situation paired with declining enrollment makes it a possibility for reduced state aid for fiscal year 2013.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Adam Crigger, Business Manager, Preston Community School District, P.O. Box 10, Preston, Iowa, 52069.

Preston Community School District

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,194,276	60,794	2,255,070
Receivables:			
Property tax:			
Delinquent	16,485	-	16,485
Succeeding year	1,025,043	-	1,025,043
Accounts	-	901	901
Due from other governments	221,553	-	221,553
Inventories	-	1,601	1,601
Capital assets, net of accumulated depreciation	906,560	5,505	912,065
<b>TOTAL ASSETS</b>	<b>4,363,917</b>	<b>68,801</b>	<b>4,432,718</b>
<b>LIABILITIES</b>			
Accounts payable	77,706	-	77,706
Salaries and benefits payable	329,392	861	330,253
Deferred revenue:			
Succeeding year property tax	1,025,043	-	1,025,043
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	8,989	-	8,989
Revenue bond payable	12,055	-	12,055
Portion due after one year:			
Net OPEB liability	33,681	475	34,156
<b>TOTAL LIABILITIES</b>	<b>1,486,866</b>	<b>1,336</b>	<b>1,488,202</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	894,505	5,505	900,010
Restricted for:			
Categorical funding	111,962	-	111,962
School infrastructure	506,601	-	506,601
Physical plant and equipment	223,420	-	223,420
Management levy purposes	110,152	-	110,152
Student activities	122,124	-	122,124
Debt service	6,028	-	6,028
Unrestricted	902,259	61,960	964,219
<b>TOTAL NET ASSETS</b>	<b>\$ 2,877,051</b>	<b>67,465</b>	<b>2,944,516</b>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 1,669,770	546,013	55,525	(1,068,232)	-	(1,068,232)
Special	458,211	143,617	16,659	(297,935)	-	(297,935)
Other	480,719	138,660	77,978	(264,081)	-	(264,081)
	<u>2,608,700</u>	<u>828,290</u>	<u>150,162</u>	<u>(1,630,248)</u>	<u>-</u>	<u>(1,630,248)</u>
Support services:						
Student	98,105	-	-	(98,105)	-	(98,105)
Instructional staff	124,119	-	1,716	(122,403)	-	(122,403)
Administration	458,444	-	-	(458,444)	-	(458,444)
Operation and maintenance of plant	342,526	-	-	(342,526)	-	(342,526)
Transportation	140,189	-	1,014	(139,175)	-	(139,175)
	<u>1,163,383</u>	<u>-</u>	<u>2,730</u>	<u>(1,160,653)</u>	<u>-</u>	<u>(1,160,653)</u>
Other expenditures:						
AEA flowthrough	121,972	-	121,972	-	-	-
Depreciation(unallocated)*	37,309	-	-	(37,309)	-	(37,309)
	<u>159,281</u>	<u>-</u>	<u>121,972</u>	<u>(37,309)</u>	<u>-</u>	<u>(37,309)</u>
Total governmental activities	3,931,364	828,290	274,864	(2,828,210)	-	(2,828,210)
Business type activities:						
Instruction:						
Regular	19,649	-	-	-	(19,649)	(19,649)
Support services:						
Administration	770	-	-	-	(770)	(770)
Operation and maintenance of plant	9,166	-	-	-	(9,166)	(9,166)
	<u>9,936</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,936)</u>	<u>(9,936)</u>
Non-instructional programs:						
Nutrition services	133,879	95,942	74,600	-	36,663	36,663
Total business type activities	163,464	95,942	74,600	-	7,078	7,078
Total	\$ 4,094,828	924,232	349,464	(2,828,210)	7,078	(2,821,132)
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 1,131,924	-	1,131,924
Capital outlay				24,765	-	24,765
Statewide sales, services and use tax				252,475	-	252,475
Unrestricted state grants				1,740,603	-	1,740,603
Nonspecific program federal grants				987	-	987
Unrestricted investment earnings				1,766	20	1,786
Other general revenues				183,023	1,275	184,298
Total general revenues				<u>3,335,543</u>	<u>1,295</u>	<u>3,336,838</u>
Change in net assets				507,333	8,373	515,706
Net assets beginning of year				2,369,718	59,092	2,428,810
Net assets end of year				<u>\$ 2,877,051</u>	<u>67,465</u>	<u>2,944,516</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Capital Projects	Nonmajor Funds	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,300,791	647,375	241,332	2,189,498
Receivables:				
Property tax:				
Delinquent	14,421	353	1,711	16,485
Succeeding year	928,948	26,095	70,000	1,025,043
Due from other funds	-	-	5,120	5,120
Due from other governments	139,260	82,293	-	221,553
<b>TOTAL ASSETS</b>	<b>\$ 2,383,420</b>	<b>756,116</b>	<b>318,163</b>	<b>3,457,699</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Due to other funds	\$ 5,120	-	-	5,120
Accounts payable	76,836	-	870	77,706
Salaries and benefits payable	329,392	-	-	329,392
Deferred revenue:				
Succeeding year property tax	928,948	26,095	70,000	1,025,043
Total liabilities	1,340,296	26,095	70,870	1,437,261
Fund balances:				
Restricted for:				
Categorical funding	111,962	-	-	111,962
School infrastructure	-	506,601	-	506,601
Physical plant and equipment	-	223,420	-	223,420
Management levy purposes	-	-	119,141	119,141
Student activities	-	-	122,124	122,124
Debt service	-	-	6,028	6,028
Unassigned	931,162	-	-	931,162
Total fund balances	1,043,124	730,021	247,293	2,020,438
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,383,420</b>	<b>756,116</b>	<b>318,163</b>	<b>3,457,699</b>

SEE NOTES TO FINANCIAL STATEMENTS

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

<b>Total fund balances of governmental funds(page 20)</b>	\$ 2,020,438
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	906,560
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	4,778
Long-term liabilities, including revenue bonds, early retirement and other post employment benefits are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(54,725)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 2,877,051</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Captial Projects	Nonmajor Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,011,729	277,240	120,195	1,409,164
Tuition	679,871	-	-	679,871
Other	68,268	4,409	268,555	341,232
State sources	1,924,399	-	-	1,924,399
Federal sources	84,031	-	-	84,031
<b>TOTAL REVENUES</b>	<b>3,768,298</b>	<b>281,649</b>	<b>388,750</b>	<b>4,438,697</b>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,659,871	-	44,842	1,704,713
Special	456,962	-	-	456,962
Other	236,053	-	243,909	479,962
	<b>2,352,886</b>	<b>-</b>	<b>288,751</b>	<b>2,641,637</b>
Support services:				
Student	97,810	-	-	97,810
Instructional staff	124,973	2,783	-	127,756
Administration	393,491	40,688	15,249	449,428
Operation and maintenance of plant	220,652	101,672	2,564	324,888
Transportation	130,650	-	21,670	152,320
	<b>967,576</b>	<b>145,143</b>	<b>39,483</b>	<b>1,152,202</b>
Capital outlay	-	16,175	-	16,175
Long-term debt:				
Principal	-	-	12,056	12,056
Other expenditures:				
AEA flowthrough	121,972	-	-	121,972
<b>TOTAL EXPENDITURES</b>	<b>3,442,434</b>	<b>161,318</b>	<b>340,290</b>	<b>3,944,042</b>
Excess of revenues over expenditures	325,864	120,331	48,460	494,655
Other financing sources(uses):				
Transfer in	-	-	12,056	12,056
Transfer out	-	(12,056)	-	(12,056)
Total other financing sources(uses)	-	(12,056)	12,056	-
Net change in fund balances	325,864	108,275	60,516	494,655
Fund balance beginning of year	717,260	621,746	186,777	1,525,783
Fund balance end of year	\$ 1,043,124	730,021	247,293	2,020,438

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds(page 22) \$ 494,655

*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 Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays	\$ 66,680	
Depreciation expense	<u>(96,456)</u>	(29,776)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 12,056

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 489

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

Early retirement	41,284	
Other postemployment benefits	<u>(11,375)</u>	<u>29,909</u>

**Changes in net assets of governmental activities(page 19) \$ 507,333**

SEE NOTES TO FINANCIAL STATEMENTS

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

	Business Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
<b>ASSETS</b>		
Cash and pooled investments	\$ 60,794	4,778
Accounts receivable	901	-
Inventories	1,601	-
Capital assets, net of accumulated depreciation	5,505	-
<b>TOTAL ASSETS</b>	<b>68,801</b>	<b>4,778</b>
<b>LIABILITIES</b>		
Salaries and benefits payable	861	-
Net OPEB liability	475	-
<b>TOTAL LIABILITIES</b>	<b>1,336</b>	<b>-</b>
<b>NET ASSETS</b>		
Invested in capital assets	5,505	-
Unrestricted	61,960	4,778
<b>TOTAL NET ASSETS</b>	<b>\$ 67,465</b>	<b>4,778</b>

SEE NOTES TO FINANCIAL STATEMENTS

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

	Business Type	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 95,942	489
Miscellaneous revenue	1,275	-
TOTAL OPERATING REVENUES	<u>97,217</u>	<u>489</u>
OPERATING EXPENSES:		
Instruction:		
Regular:		
Salaries	14,276	-
Benefits	5,373	-
	<u>19,649</u>	<u>-</u>
Support services:		
Administration:		
Services	150	-
Other	620	-
	<u>770</u>	<u>-</u>
Operation and maintenance of plant:		
Salaries	4,540	-
Benefits	2,377	-
Services	2,249	-
	<u>9,166</u>	<u>-</u>
Total support services	<u>9,936</u>	<u>-</u>
Non-instructional programs:		
Food service operations:		
Salaries	43,195	-
Benefits	9,937	-
Supplies	79,350	-
Depreciation	1,397	-
Total non-instructional programs	<u>133,879</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>163,464</u>	<u>-</u>
OPERATING INCOME (LOSS)	(66,247)	489
NON-OPERATING REVENUES:		
Interest on investments	20	-
State sources	1,966	-
Federal sources	72,634	-
TOTAL NON-OPERATING REVENUES	<u>74,620</u>	<u>-</u>
Change in net assets	8,373	489
Net assets beginning of year	<u>59,092</u>	<u>4,289</u>
Net assets end of year	<u>\$ 67,465</u>	<u>4,778</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR THE YEAR ENDED JUNE 30, 2012

	Business Type	
	Activities:	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 95,639	-
Cash received from miscellaneous operating activities	1,275	489
Cash payments to employees for services	(80,653)	-
Cash payments to suppliers for goods or services	(68,207)	-
Net cash used in operating activities	(51,946)	489
Cash flows provided by non-capital financing activities:		
State grants received	1,966	-
Federal grants received	59,098	-
Net cash provided by non-capital financing activities	61,064	-
Cash flows from investing activities:		
Interest on investments	20	-
Net increase in cash and cash equivalents	9,138	489
Cash and cash equivalents at beginning of year	51,656	4,289
Cash and cash equivalents at end of year	\$ 60,794	4,778
Reconciliation of operating loss to net cash used in in operating activities:		
Operating Income (Loss)	\$ (66,247)	489
Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:		
activities:		
Commodities consumed	13,536	-
Depreciation	1,397	-
Decrease in inventories	626	-
Increase in accounts receivable	(303)	-
Decrease in salaries and benefits payable	(1,117)	-
Increase in OPEB liability	162	-
Net cash provided (used) in operating activities	\$ (51,946)	489

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received federal commodities valued at \$13,536.

SEE NOTES TO FINANCIAL STATEMENTS

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

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
<b>ASSETS</b>		
Cash and pooled investments	\$ 146,725	848
<b>LIABILITIES</b>		
Due to other groups	-	848
<b>NET ASSETS</b>		
Restricted for scholarships	<u>\$ 146,725</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Donations	\$ 5,154
Interest income	1,740
Total additions	<u>6,894</u>
Deductions:	
Instruction:	
Regular instruction:	
Scholarships awarded	<u>4,652</u>
Change in net assets	2,242
Net assets beginning of year	<u>144,483</u>
Net assets end of year	<u>\$ 146,725</u>

SEE NOTES TO FINANCIAL STATEMENTS

PRESTON COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2012

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

The Preston Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Preston, Iowa, and the predominate agricultural territory in Jackson and Clinton Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following non-major proprietary funds:

The District's non-major proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal

Service Fund is used to account for the partially self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds are as follows:

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are

incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax

receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

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

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures exceeded the amounts budgeted in the non-instructional and support services program functional areas.

(2) **Cash and Pooled Investments**

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; 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 \$43,177 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) **Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 12,056</u>

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

(4) Due From and Due to Other Funds

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

The General Fund is repaying the Special Revenue, Student Activity Fund for a CD that was incorrectly deposited into the General Fund. The balance will be repaid by June 30, 2013.

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 11,470	-	-	11,470
Total capital assets not being depreciated	11,470	-	-	11,470
Capital assets being depreciated:				
Buildings	1,934,062	-	-	1,934,062
Land improvements	272,160	-	-	272,160
Machinery and equipment	1,410,367	66,680	-	1,477,047
Total capital assets being depreciated	3,616,589	66,680	-	3,683,269
Less accumulated depreciation for:				
Buildings	1,313,599	27,170	-	1,340,769
Land improvements	110,402	10,140	-	120,542
Machinery and equipment	1,267,722	59,146	-	1,326,868
Total accumulated depreciation	2,691,723	96,456	-	2,788,179
Total capital assets being depreciated, net	924,866	(29,776)	-	895,090
Governmental activities capital assets, net	\$ 936,336	(29,776)	-	906,560
Business type activities:				
Machinery and equipment	\$ 72,434	-	-	72,434
Less accumulated depreciation	65,532	1,397	-	66,929
Business type activities capital assets, net	\$ 6,902	(1,397)	-	5,505

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 752
Support services:		
Instructional staff		9,425
Administration		13,304
Operation and maintenance of plant		614
Transportation		35,052
		<u>59,147</u>
Unallocated depreciation		<u>37,309</u>
		<u>\$ 96,456</u>
Business type activities:		
Food services		<u>\$ 1,397</u>

**(6) Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Early retirement	\$ 50,273	-	41,284	8,989	8,989
Revenue Bond	24,111	-	12,056	12,055	12,055
OPEB liability	22,306	11,375	-	33,681	-
Total	<u>\$ 96,690</u>	<u>11,375</u>	<u>53,340</u>	<u>54,725</u>	<u>21,044</u>

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 313	162	-	475	-

Revenue Bonds

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

Year Ending June 30,	Bond Issue of August 8, 2007			
	Interest Rates	Principal	Interest	Total
2013	4.88 %	\$ 12,055	*	<u>12,055</u>

\* Interest is paid by the National Safe Surfacing Initiative, LLC(NSSI). On August 8, 2007, the NSSI deposited \$9,082, total interest due to the maturity of the Capital Loan Notes, into an irrevocable escrow account established pursuant to the an escrow agreement between the District, NSSI, and Bankers Trust Company N.A., escrow agent. The account is owned by NSSI and held by the escrow agent. Interest on the capital loan notes is due annually on July 1 and is paid directly from the escrow account.

The District has pledged future statewide sales, services and use tax revenues to repay the \$75,239 bonds issued in August, 2007. The bonds were issued for the purpose of financing a portion of the costs of a new playground tiling project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received the District and are payable through 2013. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The District is responsible for the principal only and an outside entity pays the interest. Annual principal payments on the bonds are expected to require 5.25 percent of the statewide sales, services and use tax revenues. The total principal remaining to be paid on the bonds is \$12,055. For the current year, principal of \$12,056 was paid on the bonds and total statewide sales, services and use tax revenues were \$256,438.

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule. During the year ended June 30, 2012, the District paid \$41,284 in early retirement benefits. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### **(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$159,410, \$121,178 and \$126,679 respectively, equal to the required contributions for each year.

#### **(8) Risk Management**

Preston Community School District has a self-funded dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$12,500 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three years. Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses.

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$121,972 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 36 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 17,878
Interest on net OPEB obligation	565
Adjustment to annual required contribution	(1,570)
Annual OPEB cost	<u>16,873</u>
Contributions made	(5,336)
Increase in net OPEB obligation	<u>11,537</u>
Net OPEB obligation beginning of year	22,619
Net OPEB obligation end of year	<u><u>\$ 34,156</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$5,336 to the medical and explicit plans. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 16,447	32.44%	\$ 10,851
2011	16,165	27.20%	22,619
2012	16,873	31.62%	34,156

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$140,099, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$140,099. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,613,911 and the ratio of the UAAL to covered payroll was 8.6%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy.

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are for the \$344 per month for retirees who have attained age 60. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(11) Bus Lease**

On August 8, 2011 the District entered into an operating lease with DE Lage Landen Public Finance for 3 buses. The lease contract extends through August 8, 2014. Annual lease payments are \$41,686.

**(12) Categorical Funding**

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

Program	Amount
Talented and gifted	\$ 24,220
Teacher salary supplement	17,005
Drop out and drop out prevention	45,301
Beginning teacher mentoring	1,370
Statewide voluntary preschool	11,502
Market Factor	1,967
Core curriculum	3,484
Professional development	7,088
Market factor incentives	25
Total	<u>\$ 111,962</u>

**(13) Budget Overexpenditure**

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the non-instructional and support services program functional areas exceeded the certified budget.

Preston Community School District

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 2,430,267	97,237	2,527,504	2,165,642	2,165,642	361,862
State sources	1,924,399	1,966	1,926,365	2,004,145	2,004,145	(77,780)
Federal sources	84,031	72,634	156,665	155,575	155,575	1,090
Total revenues	<u>4,438,697</u>	<u>171,837</u>	<u>4,610,534</u>	<u>4,325,362</u>	<u>4,325,362</u>	<u>285,172</u>
Expenditures/expenses:						
Instruction	2,641,637	19,649	2,661,286	2,777,478	2,777,478	116,192
Support services	1,152,202	9,936	1,162,138	1,132,602	1,132,602	(29,536)
Non-instructional programs	-	133,879	133,879	125,000	125,000	(8,879)
Other expenditures	150,203	-	150,203	353,328	353,328	203,125
Total expenditures/expenses	<u>3,944,042</u>	<u>163,464</u>	<u>4,107,506</u>	<u>4,388,408</u>	<u>4,388,408</u>	<u>280,902</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	494,655	8,373	503,028	(63,046)	(63,046)	566,074
Other financing sources, net	-	-	-	15,000	15,000	(15,000)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	494,655	8,373	503,028	(48,046)	(48,046)	551,074
Balance beginning of year	<u>1,525,783</u>	<u>59,092</u>	<u>1,584,875</u>	<u>1,437,076</u>	<u>1,437,076</u>	<u>147,799</u>
Balance end of year	<u>\$ 2,020,438</u>	<u>67,465</u>	<u>2,087,903</u>	<u>1,389,030</u>	<u>1,389,030</u>	<u>698,873</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2012, expenditures in the non-instructional and support services programs functional areas exceeded the amount budgeted.

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

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 171,890	\$ 171,890	0.0%	\$ 1,668,919	10.3%
2011	July 1, 2009	-	160,019	160,019	0.0%	1,433,177	11.2%
2012	July 1, 2009	-	140,099	140,099	0.0%	1,631,911	8.6%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

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

	Special Revenue				
	Management Levy	Student Activity	Total Special Revenue	Debt Service	Total Nonmajor
<b>ASSETS</b>					
Cash and pooled investments	\$ 117,430	117,874	235,304	6,028	241,332
Receivables:					
Property tax:					
Delinquent	1,711	-	1,711	-	1,711
Succeeding year	70,000	-	70,000	-	70,000
Due from other funds	-	5,120	5,120	-	5,120
<b>TOTAL ASSETS</b>	<b>\$ 189,141</b>	<b>122,994</b>	<b>312,135</b>	<b>6,028</b>	<b>318,163</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ -	870	870	-	870
Deferred revenue:					
Succeeding year property tax	70,000	-	70,000	-	70,000
Total Liabilities	70,000	870	70,870	-	70,870
Fund balances:					
Restricted for:					
Management levy purposes	119,141	-	119,141	-	119,141
Student activities	-	122,124	122,124	-	122,124
Debt service	-	-	-	6,028	6,028
Total fund balances	119,141	122,124	241,265	6,028	247,293
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 189,141</b>	<b>122,994</b>	<b>312,135</b>	<b>6,028</b>	<b>318,163</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Special Revenue				Total Nonmajor
	Management Levy	Student Activity	Special Revenue	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 120,195	-	120,195	-	120,195
Other	8,468	260,087	268,555	-	268,555
TOTAL REVENUES	128,663	260,087	388,750	-	388,750
EXPENDITURES:					
Current:					
Instruction:					
Regular	44,842	-	44,842	-	44,842
Other	-	243,909	243,909	-	243,909
Support services:					
Administration	14,783	466	15,249	-	15,249
Operation and maintenance of plant	2,564	-	2,564	-	2,564
Transportation	21,670	-	21,670	-	21,670
Long-term debt:					
Principal	-	-	-	12,056	12,056
TOTAL EXPENDITURES	83,859	244,375	328,234	12,056	340,290
Excess(Deficiency) of revenues over(under) expenditures	44,804	15,712	60,516	(12,056)	48,460
Other financing sources:					
Transfer in	-	-	-	12,056	12,056
Net change in fund balances	44,804	15,712	60,516	-	60,516
Fund balance beginning of year	74,337	106,412	180,749	6,028	186,777
Fund balance end of year	\$ 119,141	122,124	241,265	6,028	247,293

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 424,308	223,067	647,375
Receivables:			
Property tax:			
Delinquent	-	353	353
Succeeding year	-	26,095	26,095
Due from other governments	82,293	-	82,293
<b>TOTAL ASSETS</b>	<b>\$ 506,601</b>	<b>249,515</b>	<b>756,116</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	26,095	26,095
Fund balances:			
Restricted for:			
School infrastructure	506,601	-	506,601
Physical plant and equipment	-	223,420	223,420
Total fund balances	506,601	223,420	730,021
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 506,601</b>	<b>249,515</b>	<b>756,116</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 252,475	24,765	277,240
Other	3,963	446	4,409
TOTAL REVENUES	<u>256,438</u>	<u>25,211</u>	<u>281,649</u>
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	2,783	-	2,783
Administration	40,688	-	40,688
Operation and maintenance of plant	96,927	4,745	101,672
Capital outlays	9,585	6,590	16,175
TOTAL EXPENDITURES	<u>149,983</u>	<u>11,335</u>	<u>161,318</u>
Excess of revenues over expenditures	106,455	13,876	120,331
Other financing uses:			
Transfers out	(12,056)	-	(12,056)
Net change in fund balances	94,399	13,876	108,275
Fund balance beginning of year	412,202	209,544	621,746
Fund balance end of year	<u>\$ 506,601</u>	<u>223,420</u>	<u>730,021</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 8,899	426	9,325	-
Drama-Thespians	5,594	3,994	4,501	5,087
Dance Club	310	26	-	336
Instrumental Rental and Supply	1,366	2,120	2,260	1,226
Performing Arts Boosters	16,929	21,603	19,827	18,705
Athletic	6,809	63,409	61,564	8,654
Athletic Wear	3,983	957	-	4,940
Track	2,828	233	42	3,019
Boys Basketball Fundraiser	1,215	2,250	3,088	377
Football	2,760	7,700	7,518	2,942
Baseball	3,183	8,656	5,434	6,405
Girls Basketball Fundraiser	1,303	4,518	4,673	1,148
Volleyball	665	3,920	4,249	336
Softball Fundraisers	6,731	8,734	9,178	6,287
Girls golf	50	4	-	54
Cheerleaders	277	23	-	300
Athletic Boosters	22,585	59,510	50,214	31,881
SES	190	54	-	244
FCCLA	72	6	-	78
FFA	4,104	23,728	16,578	11,254
Spanish Club	-	1,824	116	1,708
FBLA	-	9,926	8,851	1,075
Class of 2010	656	55	-	711
Class of 2011	183	15	-	198
Class of 2012	1,039	1,395	2,434	-
Class of 2013	-	16,243	15,538	705
Class of 2014	-	3,267	1,451	1,816
Class of 2015	-	4,383	2,579	1,804
NHS	66	987	913	140
JR. High Student Council	3,287	5,134	4,777	3,644
High School Student Council	1,714	2,376	3,600	490
Student Activity	9,614	2,611	5,665	6,560
Total	<u>\$ 106,412</u>	<u>260,087</u>	<u>244,375</u>	<u>122,124</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Sponsored	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 127,767	11,406	4,802	2,750	146,725
<b>LIABILITIES</b>	-	-	-	-	-
<b>NET ASSETS</b>					
Restricted for scholarships	127,767	11,406	4,802	2,750	146,725
Total Net Assets	\$ 127,767	11,406	4,802	2,750	146,725

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Private Purpose Trust - Scholarship Fund				
	Wendell Scholarship	Carstensen Scholarship	Black Scholarship	School Sponsored	Total
Additions:					
Local sources:					
Donations	\$ 902	-	-	4,252	5,154
Interest income	750	86	4	900	1,740
	<u>1,652</u>	<u>86</u>	<u>4</u>	<u>5,152</u>	<u>6,894</u>
Deductions:					
Instruction:					
Regular instruction:					
Scholarships awarded	1,652	100	300	2,600	4,652
Changes in net assets	-	(14)	(296)	2,552	2,242
Net assets beginning of year	<u>127,767</u>	<u>11,420</u>	<u>5,098</u>	<u>198</u>	<u>144,483</u>
Net assets end of year	<u>\$ 127,767</u>	<u>11,406</u>	<u>4,802</u>	<u>2,750</u>	<u>146,725</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 846	2	-	848
<b>Liabilities</b>				
Due to other groups	\$ 846	2	-	848

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

PRESTON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 1,409,164	1,485,008	1,421,780	1,363,677	1,300,183	1,276,915	1,237,526	1,183,313	1,202,409
Tuition	679,871	227,174	248,612	247,371	211,111	222,204	209,882	201,077	182,591
Other	341,232	293,495	236,761	246,189	307,913	301,911	259,010	187,061	222,361
Intermediate sources	-	-	-	-	-	-	-	-	-
State sources	1,924,399	1,799,626	1,572,911	1,740,247	1,776,518	1,602,631	1,511,383	1,539,810	1,372,062
Federal sources	84,031	225,356	286,228	124,289	95,702	97,505	100,005	111,056	126,565
<b>Total</b>	<b>\$ 4,438,697</b>	<b>4,030,659</b>	<b>3,766,292</b>	<b>3,721,773</b>	<b>3,691,427</b>	<b>3,501,166</b>	<b>3,317,806</b>	<b>3,222,317</b>	<b>3,105,988</b>
Expenditures:									
Current:									
Instruction:									
Regular	\$ 1,704,713	1,546,936	1,550,748	1,616,074	1,473,183	1,392,014	1,302,187	1,277,207	1,235,958
Special	456,962	411,918	362,528	380,903	379,121	323,972	297,481	294,413	363,127
Other	479,962	436,555	397,620	425,867	446,804	447,131	401,155	344,709	402,428
Support services:									
Student	97,810	87,380	76,749	79,240	48,156	46,427	54,147	54,137	44,691
Instructional staff	127,756	136,628	122,991	143,386	131,575	123,615	144,152	100,510	100,571
Administration	449,428	363,585	489,584	403,676	408,759	385,662	357,299	332,905	321,181
Operation and maintenance of plant	324,888	256,838	243,588	260,350	274,512	258,537	262,065	233,310	226,555
Transportation	152,320	143,988	137,676	134,510	214,124	170,798	195,529	127,610	157,365
Non-instructional programs	-	-	-	695	595	891	723	527	-
Capital outlay	16,175	3,375	101,240	227,225	187,346	133,952	168,518	165,560	101,894
Long-term debt:									
Principal	12,056	12,056	12,056	48,382	21,490	6,137	8,171	-	-
Interest	-	-	3,014	4,688	1,971	2,254	220	-	-
Other expenditures:									
AEA flow-through	121,972	133,039	132,320	114,781	112,494	103,657	98,556	96,664	93,208
<b>Total</b>	<b>\$ 3,944,042</b>	<b>3,532,298</b>	<b>3,630,114</b>	<b>3,839,777</b>	<b>3,700,130</b>	<b>3,395,047</b>	<b>3,290,203</b>	<b>3,027,552</b>	<b>3,046,978</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

**Certified Public Accountants**

**(A Professional Corporation)**

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

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Preston Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 21, 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 Preston Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Preston Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Preston Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Preston Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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

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

## Compliance and Other Matters

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

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

Preston Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Preston Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Preston Community School District and other parties to whom Preston Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Preston Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2013

PRESTON 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 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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

Response - The District will review their controls procedures and obtain the maximum internal control possible with our limited number of employees.

Conclusion - Response accepted.

I-B-12 Board Policies - We noted during our audit the District's board policy book appears to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

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

Response - The District will continue to review board policies and make sure that they are updated on a regular basis.

Conclusion - Response accepted.

I-C-12 Supporting Documentation - We noted during our audit that checks were written from check requests without an invoice to support these requests.

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

Response - The District will make sure that all check requests will have supporting documentation.

Conclusion - Response accepted.

I-D-12 Check for Cash - We noted during our audit, a check made payable to Clinton National Bank was subsequently cashed at that bank for cash.

Recommendation - Checks made out to the bank alone are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. In the future the District should write the check payable to the custodian/sponsor.

Response - The District will make out the checks for cash to the bank and the custodian/sponsor.

Conclusion - Response accepted.

- I-E-12 Purchasing Procedures - We noted during our audit instances of employees purchasing supplies and then being reimbursed subsequently. This subjects the District to sales tax and circumvents the purchase order and approval system.

Recommendation - The District should review and follow its purchase order and approval policies and procedures.

Response - The District will review its purchasing practices and make sure that the purchase order and approval policies are followed.

Conclusion - Response accepted.

Other Matters:

- I-F-12 Student Activity Fund - The District's Student Activity Fund has Class of 2010 and 2011 accounts that are still active.

Recommendation - Upon graduation, the remaining balance in old class accounts should be redistributed to other individual activity fund accounts, used as startup funds for the next incoming class or transferred to another student activity fund account.

Response - The District will review policies in the Student Activity Fund. Remaining balances in old class accounts will be redistributed to other accounts or used as start-up money for new accounts.

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 exceeded the amount budgeted in support services and non-instructional functional areas.

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

Response - The District will monitor its certified budget and amend on a timely basis.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - We noted during our audit that the District wrote a check for cash to give to students for homecoming prizes. Giving gift cards or cash to students as prizes does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place and make necessary adjustments to comply.

Response - The District will make sure that all employees follow the District's purchase order and approval policy.

Conclusion - Response accepted.

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 during our audit that board minutes were missing the signature of the Board President and Board Secretary.

Recommendation - The District should review its procedures to ensure that the board minutes are reviewed and signed by the Board President and Board Secretary.

Response - The Board President and Board Secretary will review and sign the board minutes going forward.

Conclusion - Response accepted.

II-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by 3.

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

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

Conclusion - Response accepted.

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 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:

Beginning Balance		\$	412,202
Sales tax revenue	\$	252,475	
Other Local Revenue		3,963	256,438
			<u>668,640</u>
Expenditures/transfers out:			
Equipment	\$	140,398	
Other improvements		9,585	
Debt service for school infrastructure:			
Revenue bond debt		12,056	162,039
			<u>162,039</u>
Ending Balance		\$	<u>506,601</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-M-12 Checks Outstanding - We noted during our audit that the District had checks included in the Student Activity bank reconciliation which have been outstanding for over a year.

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

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

Conclusion - Response accepted.

II-N-12 Interfund Loans - We noted during our audit that the District has an inter-fund 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 General Fund and Special Revenue: Activity 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, inter-fund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1<sup>st</sup> 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 inter-fund loans by that time, the District must seek external borrowing options to repay the inter-fund loans.

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

Response - The inter-fund loan will be repaid and any others in the future will be accounted for correctly.

Conclusion - Response accepted.

II-O-12 Contracts - We noted during our audit that a bus lease contract was signed by the Superintendent. We also noted during our audit that athletic officials contracts were lacking the Board President' signature. Chapter 291.1 of the Code of Iowa requires the Board President's signature on all contracts.

Recommendation - The District should review its procedures to ensure that the Board President is reviewing and signing District contracts.

Response - The District will ensure that the Board President reviews and signs all contracts.

Conclusion - Response accepted.