

WASHINGTON COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-16
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	27
Statement of Changes in Fiduciary Net Assets	K	28
Notes to Financial Statements		29-42
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		44
Notes to Required Supplementary Information - Budgetary Reporting		45
Schedule of Funding Progress for the Retiree Health Plan		46
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	49
Capital Projects Fund Accounts:		
Combining Balance Sheet	3	50
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	51
Schedule of Changes in Student Activity Accounts	5	52-53
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	54
Schedule of Expenditures of Federal Awards	7	55
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		56-57
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		58-59
Schedule of Findings and Questioned Costs		60-66

Washington Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2011 election)</b>		
Eric Turner	President	2011
Heidi Vittetoe	Vice President	2013
Sheryl Lewis	Board Member	2013
Patty Roe	Board Member	2013
Troy Suchan	Board Member	2013
Richard Bordwell	Board Member	2011
Stephanie Ellingson	Board Member	2011
<b>Board of Education (After September 2011 election)</b>		
Eric Turner	President	2015
Heidi Vittetoe	Vice President	2013
Sheryl Lewis	Board Member	2013
Patty Roe	Board Member	2013
Troy Suchan	Board Member	2013
Ericka Raber	Board Member	2015
Stephanie Ellingson	Board Member	2015
<b>School Officials</b>		
Mike Jorgensen	Superintendent	2012
Jeff Dieleman	Business Manager/ District Secretary	2012
Brian Gruhn	Attorney	2012

*Washington 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  
Washington 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 Washington Community School District, Washington, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated April 25, 2013 on our consideration of Washington Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic

**Members American Institute & Iowa Society of Certified Public Accountants**

financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington Community School District's basic financial statements. We previously audited the financial statements for the previous five years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited the financial statements for the previous three years ended June 30, 2006, (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report, and unqualified opinions were expressed on those financial statements. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

April 25, 2013

---

---

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

---

---

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

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$19,040,787 in fiscal 2011 to \$19,403,443 in fiscal 2012, while General Fund expenditures increased from \$17,111,751 in fiscal 2011 to \$17,836,994 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$2,081,090 in fiscal 2011 to a balance of \$3,647,539 in fiscal 2012, a 75.27% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state source revenues in fiscal 2012. The increase in expenditures is mostly attributable to increases in costs in the instructional and support services functions.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

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

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

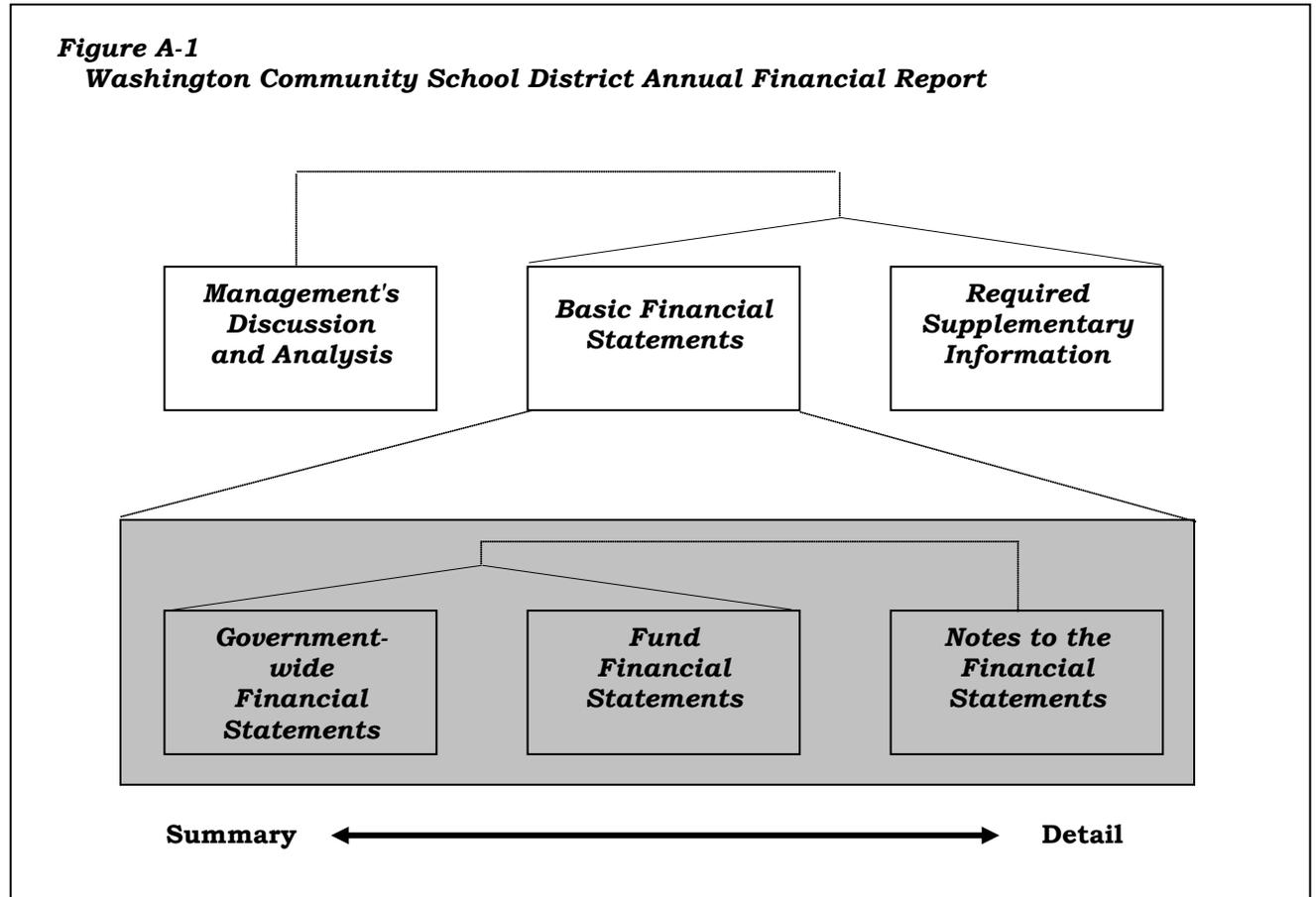


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of 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.

---

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 16,644,756	21,059,607	181,849	156,407	16,826,605	21,216,014	-20.69%
Capital assets	23,143,789	16,675,219	216,129	244,346	23,359,918	16,919,565	38.06%
Total assets	39,788,545	37,734,826	397,978	400,753	40,186,523	38,135,579	5.38%
Long-term obligations	15,389,475	15,992,112	4,858	2,138	15,394,333	15,994,250	-3.75%
Other liabilities	9,111,684	9,602,661	72,872	55,868	9,184,556	9,658,529	-4.91%
Total liabilities	24,501,159	25,594,773	77,730	58,006	24,578,889	25,652,779	-4.19%
Net assets:							
Invested in capital assets, net of related debt	8,999,224	6,479,026	216,129	244,346	9,215,353	6,723,372	37.06%
Restricted	4,156,028	4,596,943	-	-	4,156,028	4,596,943	-9.59%
Unrestricted	2,132,134	1,064,084	104,119	98,401	2,236,253	1,162,485	92.37%
Total net assets	\$ 15,287,386	12,140,053	320,248	342,747	15,607,634	12,482,800	25.03%

The District's combined net assets increased by 25.03%, or \$3,124,834, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 9.59%, or \$440,915, over the prior year. The majority of the decrease in restricted net assets can be attributed to the decrease in fund balance of the Debt Service Fund due to the repayment of \$1 million in QZAB bonds and the reduction in carryover balances for categorical funding as compared to the previous year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$1,073,768, or 92.37%. The increase in unrestricted net assets is mainly attributable to the increase in General Fund carryover balance.

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

Figure A-4  
Changes of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	2011-12
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program revenues:							
Charges for services	\$ 1,094,247	1,129,274	331,727	328,889	1,425,974	1,458,163	-2.21%
Operating grants and contributions and restricted interest	1,834,046	2,298,229	490,018	480,929	2,324,064	2,779,158	-16.38%
Capital grants and contributions and restricted interest	1,434,888	135,000	-	-	1,434,888	135,000	962.88%
General revenues:							
Property tax	6,172,044	6,075,083	-	-	6,172,044	6,075,083	1.60%
Income surtax	595,725	614,358	-	-	595,725	614,358	-3.03%
Statewide sales, services and use tax	1,310,349	1,121,385	-	-	1,310,349	1,121,385	16.85%
Unrestricted state grants	9,686,288	8,816,571	-	-	9,686,288	8,816,571	9.86%
Nonspecific program federal grants	357,243	210,151	-	-	357,243	210,151	69.99%
Unrestricted investment earnings	41,588	91,858	290	1,113	41,878	92,971	-54.96%
Other	97,696	423,583	-	3,383	97,696	426,966	-77.12%
Total revenues	22,624,114	20,915,492	822,035	814,314	23,446,149	21,729,806	7.90%
Program expenses:							
Governmental activities:							
Instructional	12,972,234	11,664,039	-	-	12,972,234	11,664,039	11.22%
Support services	5,331,772	4,742,157	-	-	5,331,772	4,742,157	12.43%
Non-instructional programs	-	-	844,534	831,245	844,534	831,245	1.60%
Long-term debt interest	608,045	620,012	-	-	608,045	620,012	-1.93%
Other expenses	916,940	860,448	-	-	916,940	860,448	6.57%
Total expenses	19,828,991	17,886,656	844,534	831,245	20,673,525	18,717,901	10.45%
Changes in net assets before special item	2,795,123	3,028,836	(22,499)	(16,931)	2,772,624	3,011,905	-7.94%
Other financing sources:							
Special item(Note 14)	352,210	-	-	-	352,210	-	100.00%
Changes in net assets	3,147,333	3,028,836	(22,499)	(16,931)	3,124,834	3,011,905	3.75%
Beginning net assets	12,140,053	9,111,217	342,747	359,678	12,482,800	9,470,895	31.80%
Ending net assets	\$ 15,287,386	12,140,053	320,248	342,747	15,607,634	12,482,800	25.03%

In fiscal 2012, local tax (property tax, income surtax and statewide sales, services and use tax) and unrestricted state grants account for 78.52% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.96% of the revenue from business type activities.

The District's total revenues were approximately \$23.45 million of which approximately \$22.63 million was for governmental activities and approximately \$0.82 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.90% increase in revenues and a 10.45% increase in expenses. Property tax increased \$96,961 to fund District expenditures. The increase in revenues is mainly attributable to increases in state sources during fiscal 2012. The increase in expenditures is mainly attributable to increases in salaries and benefits received by District employees.

### Governmental Activities

Revenues for governmental activities were \$22,624,114 and expenses were \$19,828,991. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 12,972,234	11,664,039	11.22%	10,839,389	9,090,239	19.24%
Support services	5,331,772	4,742,157	12.43%	3,761,222	4,472,038	-15.89%
Long-term debt interest	608,045	620,012	-1.93%	608,045	620,012	-1.93%
Other expenses	916,940	860,448	6.57%	257,154	141,864	81.27%
Totals	\$ 19,828,991	17,886,656	10.86%	15,465,810	14,324,153	7.97%

- The cost financed by users of the District's programs was \$1,094,247.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,268,934.
- The net cost of governmental activities was financed with \$6,172,044 in property tax, \$595,725 in income surtax, \$1,310,349 in statewide sales, service and use tax, \$9,686,288 in unrestricted state grants, \$357,243 in nonspecific program federal grants, \$41,588 in interest income and \$97,696 in other general revenues.

### Business type Activities

Revenues of the District's business type activity were \$822,035 and expenses were \$844,534. The District's business type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

---

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$7,233,910, below last year's ending fund balances of \$11,131,743. The main reason for the decrease in combined fund balances can be attributed to continuing construction costs associated with the new high school building and energy improvement projects.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in state source revenues was the primary reason for the increase in revenues. The increase in General Fund revenues was more than enough to outpace the increase in General Fund expenditures creating a net result of an increase in fund balance from \$2,081,090 in fiscal 2011 to \$3,647,539 in fiscal 2012.
- The Capital Projects Accounts balance decreased from a balance of \$6,011,050 in fiscal 2011 to a balance of \$1,421,982 in fiscal 2012. The decrease in overall fund balance can be attributed to continuing construction costs for energy improvement projects and the new high school building.
- The Debt Service Fund balance decreased from a balance of \$2,663,394 at June 30, 2011, to a balance of \$1,857,673. The decrease in fund balance is the result of the District paying off \$1,000,000 in QZAB bonds the District received in 2002 for remodeling school facilities.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$342,747 at June 30, 2011 to \$320,248 at June 30, 2012, representing a decrease of 6.56%.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$2,048,641 more than budgeted revenues, a variance of 9.56%. The most significant dollar difference resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, expenditures in the non-instructional programs functional area exceeded the budgeted amount.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the District had invested \$23,359,918, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 38.06% from the previous year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$511,753.

The original cost of the District's capital assets was \$29,231,471. Governmental funds account for \$28,739,605 with the remainder of \$437,866 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$8,956,766 at June 30, 2011 as compared to \$15,429,183 at June 30, 2012. Continuing costs associated with construction of the new high school as well as energy improvement projects lent to the increase in construction in progress.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-2012
Land	\$ 710,542	710,542	-	-	710,542	710,542	0.00%
Construction in progress	15,429,183	8,956,766	-	-	15,429,183	8,956,766	72.26%
Buildings	5,830,236	5,990,657	-	-	5,830,236	5,990,657	-2.68%
Land improvements	304,404	330,475	-	-	304,404	330,475	-7.89%
Machinery and equipment	869,424	686,779	216,129	244,346	1,085,553	931,125	16.59%
Total	\$ 23,143,789	16,675,219	216,129	244,346	23,359,918	16,919,565	38.06%

### Long-Term Debt

At June 30, 2012, the District had \$15,394,333 in revenue bonds, energy capital loan notes and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	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
Revenue Bonds	\$ 13,630,000	13,985,000	-	-	13,630,000	13,985,000	-2.54%
Energy Capital Loan Notes	700,000	700,000	-	-	700,000	700,000	0.00%
QZAB Bonds	-	1,000,000	-	-	-	1,000,000	-100.00%
Computer Loan	700,000	-	-	-	700,000	-	100.00%
Early Retirement	33,333	139,129	-	-	33,333	139,129	-76.04%
Net OPEB Liability	326,142	167,983	4,858	2,138	331,000	170,121	94.57%
Total	\$ 15,389,475	15,992,112	4,858	2,138	15,394,333	15,994,250	-3.75%

---

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- It is a concern of this District, as well as every District in the state, that certain costs will continue to increase, such as those associated with negotiated agreements with unions, i.e. salaries and benefits. Other uncontrolled costs such as fuel also continue to be watched. With the legislature's hesitancy to fully fund and increase funding, knowing that these costs will continue to rise, the District remains vigilant to use completely and efficiently all the resources it has at its disposal.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. Also continued budget concerns at state level will affect future projections. The District will continue to be forced to shift funding to property taxes.
- On July 1, 2012, the IPERS increase to 8.67% will increase the Washington Community Schools employer benefits costs during fiscal 2013. An additional increase to 8.93% is anticipated for fiscal year 2014.

## **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 Jeff Dieleman, Business Manager/District Secretary, Washington Community School District, P.O. Box 926, Washington, Iowa, 52353.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 8,900,731	159,381	9,060,112
Receivables:			
Property tax:			
Delinquent	117,652	-	117,652
Succeeding year	6,092,723	-	6,092,723
Income surtax	603,476	-	603,476
Accounts	3,437	-	3,437
Due from other governments	926,737	17,644	944,381
Inventories	-	4,824	4,824
Capital assets, net of accumulated depreciation	23,143,789	216,129	23,359,918
<b>TOTAL ASSETS</b>	<b>39,788,545</b>	<b>397,978</b>	<b>40,186,523</b>
<b>LIABILITIES</b>			
Due to other funds	1,062	-	1,062
Accounts payable	887,337	8,162	895,499
Retainage payable	214,626	-	214,626
Salaries and benefits payable	1,599,310	52,690	1,652,000
Accrued interest payable	304,314	-	304,314
Deferred revenue:			
Succeeding year property tax	6,092,723	-	6,092,723
Unearned revenue	-	12,020	12,020
Other	12,312	-	12,312
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	440,000	-	440,000
Computer loan payable	175,000	-	175,000
Early retirement payable	33,333	-	33,333
Portion due after one year:			
Revenue bonds payable	13,190,000	-	13,190,000
Capital loan notes payable	700,000	-	700,000
Computer loan payable	525,000	-	525,000
Net OPEB liability	326,142	4,858	331,000
<b>TOTAL LIABILITIES</b>	<b>24,501,159</b>	<b>77,730</b>	<b>24,578,889</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,999,224	216,129	9,215,353
Restricted for:			
Categorical funding	788,425	-	788,425
Debt service	1,857,673	-	1,857,673
Management levy purposes	112,691	-	112,691
Student activities	160,692	-	160,692
School infrastructure	587,876	-	587,876
Physical plant and equipment	648,671	-	648,671
Unrestricted	2,132,134	104,119	2,236,253
<b>TOTAL NET ASSETS</b>	<b>\$ 15,287,386</b>	<b>320,248</b>	<b>15,607,634</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants,	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	Contributions and Restricted Interest	Contributions and Restricted Interest			
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 7,448,864	410,679	342,508	-	(6,695,677)	-	(6,695,677)
Special	2,694,303	49,254	208,991	-	(2,436,058)	-	(2,436,058)
Other	2,829,067	519,153	602,260	-	(1,707,654)	-	(1,707,654)
	<u>12,972,234</u>	<u>979,086</u>	<u>1,153,759</u>	<u>-</u>	<u>(10,839,389)</u>	<u>-</u>	<u>(10,839,389)</u>
Support services:							
Student	380,282	28,701	-	-	(351,581)	-	(351,581)
Instructional staff	504,132	-	-	-	(504,132)	-	(504,132)
Administration	1,842,000	-	-	-	(1,842,000)	-	(1,842,000)
Operation and maintenance of plant	1,837,537	28,733	-	1,434,888	(373,916)	-	(373,916)
Transportation	767,821	57,727	20,501	-	(689,593)	-	(689,593)
	<u>5,331,772</u>	<u>115,161</u>	<u>20,501</u>	<u>1,434,888</u>	<u>(3,761,222)</u>	<u>-</u>	<u>(3,761,222)</u>
Long-term debt interest	608,045	-	-	-	(608,045)	-	(608,045)
Other expenses:							
AEA flowthrough	659,786	-	659,786	-	-	-	-
Depreciation (unallocated)*	257,154	-	-	-	(257,154)	-	(257,154)
	<u>916,940</u>	<u>-</u>	<u>659,786</u>	<u>-</u>	<u>(257,154)</u>	<u>-</u>	<u>(257,154)</u>
Total governmental activities	19,828,991	1,094,247	1,834,046	1,434,888	(15,465,810)	-	(15,465,810)
Business type activities:							
Non-instructional programs:							
Nutrition services	844,534	331,727	490,018	-	-	(22,789)	(22,789)
Total	\$ <u>20,673,525</u>	<u>1,425,974</u>	<u>2,324,064</u>	<u>1,434,888</u>	<u>(15,465,810)</u>	<u>(22,789)</u>	<u>(15,488,599)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 5,673,346	-	5,673,346
Capital outlay					498,698	-	498,698
Income surtax					595,725	-	595,725
Statewide sales, services and use tax					1,310,349	-	1,310,349
Unrestricted state grants					9,686,288	-	9,686,288
Nonspecific program federal grants					357,243	-	357,243
Unrestricted investment earnings					41,588	290	41,878
Other					97,696	-	97,696
Total general revenues					<u>18,260,933</u>	<u>290</u>	<u>18,261,223</u>
Changes in net assets before special item					2,795,123	(22,499)	2,772,624
Other financing sources:							
Special item(Note 14)					352,210	-	352,210
Changes in net assets					3,147,333	(22,499)	3,124,834
Net assets beginning of year					12,140,053	342,747	12,482,800
Net assets end of year					<u>\$ 15,287,386</u>	<u>320,248</u>	<u>15,607,634</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 5,300,358	1,407,130	1,857,673	335,570	8,900,731
Receivables:					
Property tax:					
Delinquent	102,117	9,326	-	6,209	117,652
Succeeding year	5,122,649	520,074	-	450,000	6,092,723
Income surtax	603,476	-	-	-	603,476
Accounts	3,437	-	-	-	3,437
Due from other governments	426,203	500,534	-	-	926,737
<b>TOTAL ASSETS</b>	<b>\$ 11,558,240</b>	<b>2,437,064</b>	<b>1,857,673</b>	<b>791,779</b>	<b>16,644,756</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Due to other funds	1,062	-	-	-	1,062
Accounts payable	\$ 571,892	280,382	-	35,063	887,337
Retainage payable	-	214,626	-	-	214,626
Salaries and benefits payable	1,599,310	-	-	-	1,599,310
Deferred revenue:					
Succeeding year property tax	5,122,649	520,074	-	450,000	6,092,723
Income surtax	603,476	-	-	-	603,476
Other	12,312	-	-	-	12,312
Total liabilities	7,910,701	1,015,082	-	485,063	9,410,846
Fund balances:					
Restricted for:					
Categorical funding	788,425	-	-	-	788,425
Construction	-	185,435	-	-	185,435
Debt service	-	-	1,857,673	-	1,857,673
Management levy purposes	-	-	-	146,024	146,024
Student activities	-	-	-	160,692	160,692
School infrastructure	-	587,876	-	-	587,876
Physical plant and equipment	-	648,671	-	-	648,671
Unassigned	2,859,114	-	-	-	2,859,114
Total fund balances	3,647,539	1,421,982	1,857,673	306,716	7,233,910
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,558,240</b>	<b>2,437,064</b>	<b>1,857,673</b>	<b>791,779</b>	<b>16,644,756</b>

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON 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>	\$ 7,233,910
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	23,143,789
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	603,476
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(304,314)
Long-term liabilities, including revenue bonds payable, capital loan notes payable, computer loan payable, early retirement payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(15,389,475)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 15,287,386</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 5,974,677	1,809,047	-	325,177	8,108,901
Tuition	412,140	-	-	-	412,140
Other	607,048	215,337	29,292	355,747	1,207,424
State sources	10,638,017	305	-	203	10,638,525
Federal sources	1,058,019	1,229,888	-	-	2,287,907
<b>TOTAL REVENUES</b>	<b>18,689,901</b>	<b>3,254,577</b>	<b>29,292</b>	<b>681,127</b>	<b>22,654,897</b>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	7,378,354	-	-	180,682	7,559,036
Special	2,655,443	-	-	-	2,655,443
Other	2,457,333	-	-	384,076	2,841,409
	12,491,130	-	-	564,758	13,055,888
Support services:					
Student	377,984	-	-	-	377,984
Instructional staff	632,510	-	-	2,540	635,050
Administration	1,768,936	1,500	-	16,440	1,786,876
Operation and maintenance of plant	1,179,990	-	-	98,704	1,278,694
Transportation	622,818	127,434	-	68,178	818,430
	4,582,238	128,934	-	185,862	4,897,034
Capital outlay	-	7,037,987	-	-	7,037,987
Long-term debt:					
Principal	-	-	1,355,000	-	1,355,000
Interest and fiscal charges	-	-	612,787	-	612,787
	-	-	1,967,787	-	1,967,787
Other expenditures:					
AEA flowthrough	659,786	-	-	-	659,786
<b>TOTAL EXPENDITURES</b>	<b>17,733,154</b>	<b>7,166,921</b>	<b>1,967,787</b>	<b>750,620</b>	<b>27,618,482</b>
Excess(Deficiency) of revenues over(under) expenditures	956,747	(3,912,344)	(1,938,495)	(69,493)	(4,963,585)
Other financing sources(uses):					
Transfer in	-	-	1,132,774	-	1,132,774
Transfer out	(103,840)	(1,028,934)	-	-	(1,132,774)
Proceeds from computer loan	700,000	-	-	-	700,000
Insurance proceeds	13,542	-	-	-	13,542
Special item(Note 14)	-	352,210	-	-	352,210
<b>Total other financing sources(uses)</b>	<b>609,702</b>	<b>(676,724)</b>	<b>1,132,774</b>	<b>-</b>	<b>1,065,752</b>
Net change in fund balances	1,566,449	(4,589,068)	(805,721)	(69,493)	(3,897,833)
Fund balance beginning of year	2,081,090	6,011,050	2,663,394	376,209	11,131,743
Fund balance end of year	\$ 3,647,539	1,421,982	1,857,673	306,716	7,233,910

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON 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) \$ (3,897,833)

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

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

Expenditures for capital assets	\$ 6,947,959	
Depreciation expense	(479,389)	6,468,570

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 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.

Current year issuances were the following:

Issued	\$ (700,000)	
Repaid	1,355,000	655,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 4,742

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (30,783)

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	\$ 105,796	
Other postemployment benefits	(158,159)	(52,363)

**Changes in net assets of governmental activities(page 19) \$ 3,147,333**

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
<b>ASSETS</b>	
Current assets:	
Cash and pooled investments	\$ 159,381
Due from other governments	17,644
Inventories	4,824
Total current assets	181,849
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	216,129
Total non-current assets	216,129
<b>TOTAL ASSETS</b>	<b>397,978</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	8,162
Salaries and benefits payable	52,690
Unearned revenue	12,020
Total current liabilities	72,872
Long-term liabilities:	
Net OPEB liability	4,858
Total long-term liabilities	4,858
<b>TOTAL LIABILITIES</b>	<b>77,730</b>
<b>NET ASSETS</b>	
Invested in capital assets	216,129
Unrestricted	104,119
<b>TOTAL NET ASSETS</b>	<b>\$ 320,248</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 331,727
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	278,311
Benefits	62,106
Services	12,774
Supplies	458,979
Depreciation	32,364
TOTAL OPERATING EXPENSES	844,534
OPERATING LOSS	(512,807)
NON-OPERATING REVENUES:	
Interest	290
State sources	8,014
Federal sources	482,004
TOTAL NON-OPERATING REVENUES	490,308
Change in net assets	(22,499)
Net assets beginning of year	342,747
Net assets end of year	\$ 320,248

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 331,898
Cash payments to employees for services	(327,834)
Cash payments to suppliers for goods or services	(421,515)
Net cash used in operating activities	(417,451)
Cash flows from non-capital financing activities:	
State grants received	8,014
Federal grants received	443,477
Net cash provided by non-capital financing activities	451,491
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(4,147)
Cash flows from investing activities:	
Interest on investments	290
Net increase in cash and cash equivalents	30,183
Cash and cash equivalents at beginning of year	129,198
Cash and cash equivalents at end of year	\$ 159,381
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (512,807)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	38,564
Depreciation	32,364
Decrease in inventories	4,203
Decrease in accounts receivable	501
Increase in accounts payable	7,471
Increase in salaries and benefits payable	9,863
Decrease in unearned revenue	(330)
Increase in other postemployment benefits	2,720
Net cash used in operating activities	\$ (417,451)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$38,564.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust Scholarship
ASSETS	
Cash and pooled investments	\$ 1,284,250
Due from other funds	1,062
TOTAL ASSETS	<u>1,285,312</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Restricted for scholarships	<u>\$ 1,285,312</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest	\$ 28,047
Contributions	25,100
Total additions	53,147
Deductions:	
Non-instructional programs:	
Scholarships awarded	28,055
Change in net assets	25,092
Net assets beginning of year	1,260,220
Net assets end of year	\$ 1,285,312

SEE NOTES TO FINANCIAL STATEMENTS.

WASHINGTON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

The Washington Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District also operates or sponsors various adult education programs. The geographic area served primarily includes the City of Washington, Iowa, and the predominate agricultural territory of Washington and Jefferson 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, Washington Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Washington 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 Washington and Jefferson County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District's nonmajor proprietary fund is the Enterprise, School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

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

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

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 - committed, assigned and then unassigned fund balances.

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in

the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	40 years
Land improvements	15 years
Intangibles	2-5 years
Machinery and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July 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 Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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

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

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 in the non-instructional programs functional area exceeded the budgeted amount.

**(2) Cash and Pooled Investments**

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

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

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$4,682,419 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard and Poor's Financial Services.

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

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

Receivable Fund	Payable Fund	Amount
Private Purpose Trust	General	\$ 1,062

The General Fund is repaying the Private Purpose Trust Fund for interest earned on certificates of deposit that was deposited in the wrong checking account by the bank.

**(4) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	General	\$ 86,130
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	1,028,934
Debt Service	General	17,710
Total		\$ 1,132,774

The transfer of \$86,130 from the General Fund to the Debt Service Fund was needed to make the final annual payment for the extinguishment of QZAB bonded debt during fiscal 2013.

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

The transfer of \$17,710 from the General Fund to the Debt Service Fund was needed to pay principal on the District's energy capital loan note indebtedness.

**(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	\$ 710,542	-	-	710,542
Construction in progress	8,956,766	6,472,417	-	15,429,183
Total capital assets not being depreciated	<u>9,667,308</u>	<u>6,472,417</u>	<u>-</u>	<u>16,139,725</u>
Capital assets being depreciated:				
Buildings	8,189,332	70,662	-	8,259,994
Land improvements	1,169,825	-	-	1,169,825
Machinery and equipment	2,872,087	404,880	52,906	3,224,061
Total capital assets being depreciated	<u>12,231,244</u>	<u>475,542</u>	<u>52,906</u>	<u>12,653,880</u>
Less accumulated depreciation for:				
Buildings	2,198,675	231,083	-	2,429,758
Land improvements	839,350	26,071	-	865,421
Machinery and equipment	2,185,308	222,235	52,906	2,354,637
Total accumulated depreciation	<u>5,223,333</u>	<u>479,389</u>	<u>52,906</u>	<u>5,649,816</u>
Total capital assets being depreciated, net	<u>7,007,911</u>	<u>(3,847)</u>	<u>-</u>	<u>7,004,064</u>
Governmental activities capital assets, net	<u>\$ 16,675,219</u>	<u>6,468,570</u>	<u>-</u>	<u>23,143,789</u>
Business type activities:				
Machinery and equipment	\$ 433,719	4,147	-	437,866
Less accumulated depreciation	189,373	32,364	-	221,737
Business type activities capital assets, net	<u>\$ 244,346</u>	<u>(28,217)</u>	<u>-</u>	<u>216,129</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 10,262
Special	2,146
Other	7,784
Support services:	
Instructional services	19,567
Administration	16,305
Operation and maintenance	32,210
Transportation	133,961
	<u>222,235</u>
Unallocated depreciation	<u>257,154</u>
Total governmental activities depreciation expense	<u>\$ 479,389</u>
Business type activities:	
Food services	<u>\$ 32,364</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	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Revenue Bonds	\$ 13,985,000	-	355,000	13,630,000	440,000
Capital Loan Notes	700,000	-	-	700,000	-
QZAB Bonds	1,000,000	-	1,000,000	-	-
Computer Loan	-	700,000	-	700,000	175,000
Early Retirement	139,129	-	105,796	33,333	33,333
Net OPEB Liability	167,983	158,159	-	326,142	-
Total	\$ 15,992,112	858,159	1,460,796	15,389,475	648,333
Business Type Activities:					
Net OPEB Liability	\$ 2,138	2,720	-	4,858	-

Revenue Bonds

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

Year Ending June 30,	Interest Rates	Bond Issue of December 1, 2009		
		Principal	Interest	Total
2013	3.00	% \$ 440,000	583,153	1,023,153
2014	3.00	460,000	569,653	1,029,653
2015	3.00	560,000	554,353	1,114,353
2016	3.25	565,000	520,953	1,085,953
2017	3.50	590,000	517,265	1,107,265
2018-2022	3.75-4.40	3,305,000	2,215,214	5,520,214
2023-2027	4.50-4.75	4,085,000	1,419,355	5,504,355
2028-2030	5.00	3,625,000	327,625	3,952,625
Total		\$ 13,630,000	6,707,571	20,337,571

The District has pledged future statewide sales, services and use tax revenues to repay the \$13,985,000 bonds issued December 1, 2009. The bonds were issued for the purpose of defraying a portion of the costs of school infrastructure within the District. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 78% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$20,337,571. For the current year \$355,000 in principal and \$595,078 in interest payments due on the bonds and total statewide sales, services and use tax revenues were \$1,310,349.

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

- a) \$1,122,753 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) The District will make transfers from the statewide sales, services and use tax account and those proceeds shall be placed in a Revenue Account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Energy Capital Loan Notes

Details of the District's June 30, 2012, energy capital loan note indebtedness that will be paid from the General Fund are as follows:

Year Ending June 30,	Capital Loan Note Issue of July 1, 2010			
	Interest Rates	Principal	Interest	Total
2013	1.55 %	\$ -	17,710	17,710
2014	1.55	95,000	17,710	112,710
2015	2.00	95,000	16,238	111,238
2016	2.50	95,000	14,338	109,338
2017	2.65	100,000	10,638	110,638
2018-2020	2.75-3.15	315,000	11,809	326,809
Total		\$ 700,000	88,443	788,443

Computer Loan

Details of the District's June 30, 2012, computer loan with Westchester Savings Bank of Washington, Iowa are the following:

Year Ending June 30,				
	Interest Rates	Principal	Interest	Total
2013	2.00 %	\$ 175,000	9,625	184,625
2014	2.00	175,000	9,625	184,625
2015	2.00	175,000	6,125	181,125
2016	2.00	175,000	2,625	177,625
Total		\$ 700,000	28,000	728,000

### Early Retirement

During fiscal 2010, the District offered a voluntary early retirement plan to only licensed teachers that were over age fifty-five. The employee must have notified the Board by February 26, 2010 to receive the early retirement benefit. The amount of early retirement pay for teachers is equal to fifty-percent of the employees' fiscal year 2010 salary.

Early retirement benefits paid during the year ended June 30, 2012, totaled \$105,796. 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 \$801,811, \$663,425 and \$639,307 respectively, equal to the required contributions for each year.

### **(8) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 263 active members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Iowa School Employee Benefits Association. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 168,000
Interest on net OPEB obligation	8,000
Adjustment of annual required contribution	(6,121)
Annual OPEB cost	<u>169,879</u>
Contributions made	<u>(9,000)</u>
Increase in net OPEB obligation	160,879
Net OPEB obligation - beginning of year	<u>170,121</u>
Net OPEB obligation - end of year	<u><u>\$ 331,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2012.

For fiscal year 2012, the District contributed \$9,000 to the medical plan. Plan members receiving benefits contributed \$14,000, or 39% 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	\$ 79,334	31.51%	\$ 120,334
2011	79,787	37.60%	170,121
2012	169,879	5.30%	331,000

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1.160 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.160 million. The covered payroll (annual payroll of active employees covered by the plan) was \$7.525 million, and the ratio of the UAAL to the covered payroll was 15.4%. As of June 30, 2012, there were no trust fund assets.

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

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

As of July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a percentage each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table projected to 2015 using scale AA, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2012 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2012.

Projected claim costs of the medical plan are \$634 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(9) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical and dental insurance. District contributions to ISEBA for the year ended June 30, 2012 were \$1,400,332.

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$659,786 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Construction Commitments**

The District has entered into various contracts totaling \$15,433,023 for the construction of a new high school building and improvements to Stewart Elementary. As of June 30, 2012, costs of \$14,107,108 had been incurred against the contracts. The remaining \$1,325,915 at June 30, 2012 will be paid as work on the projects progresses. Once the projects have been completed the construction costs will be capitalized and added to the District's capital asset listing.

**(12) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

**(13) Categorical Funding**

The District's ending restricted balances for categorical funding as of June 30, 2012 are comprised of the following projects:

Project	Amount
Homeschool assistance program	\$ 38,417
Gifted and talented	141,495
Beginning teacher mentoring	19,920
Teacher salary supplement	159,249
Market factor	6,371
Beginning administrator mentoring	1,866
Early intervention	110,656
Four-year-old preschool	57,193
Model core curriculum	70,071
Professional development	160,663
Non-public transportation	9,767
Market factor incentives	12,757
Total	<u>\$ 788,425</u>

**(14) Special Item**

During the year ended June 30, 2012, the District received the final payment from the City of Washington for 90 acres of land sold during fiscal year 2010. The amount of the payment was \$352,210.

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 9,728,465	332,017	10,060,482	9,571,527	9,571,527	488,955
State sources	10,638,525	8,014	10,646,539	10,781,764	10,781,764	(135,225)
Federal sources	2,287,907	482,004	2,769,911	1,075,000	1,075,000	1,694,911
Total revenues	22,654,897	822,035	23,476,932	21,428,291	21,428,291	2,048,641
<b>Expenditures/Expenses:</b>						
Instruction	13,055,888	-	13,055,888	13,140,000	13,140,000	84,112
Support services	4,897,034	-	4,897,034	6,015,000	6,015,000	1,117,966
Non-instructional programs	-	844,534	844,534	740,000	740,000	(104,534)
Other expenditures	9,665,560	-	9,665,560	13,081,956	13,081,956	3,416,396
Total expenditures/expenses	27,618,482	844,534	28,463,016	32,976,956	32,976,956	4,513,940
Excess(Deficiency) of revenues over(under) expenditures/expenses	(4,963,585)	(22,499)	(4,986,084)	(11,548,665)	(11,548,665)	6,562,581
Other financing sources, net	1,065,752	-	1,065,752	-	-	1,065,752
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(3,897,833)	(22,499)	(3,920,332)	(11,548,665)	(11,548,665)	7,628,333
Balance beginning of year	11,131,743	342,747	11,474,490	14,531,436	14,531,436	3,056,946
Balance end of year	\$ 7,233,910	320,248	7,554,158	2,982,771	2,982,771	10,685,279

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

During the year ended June 30, 2012, expenditures in the non-instructional programs functional area exceeded the budgeted amount.

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

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2008	\$ -	\$676	\$676	0.0%	\$10,044	6.7%
2011	July 1, 2008	\$ -	\$676	\$676	0.0%	\$9,788	6.9%
2012	July 1, 2011	\$ -	\$1,160	\$1,160	0.0%	\$7,525	15.4%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

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

	Special Revenue		Total
	Manage- ment Levy	Student Activity	Nonmajor Governmental Funds
<b>ASSETS</b>			
Cash and pooled investments	\$ 139,815	195,755	335,570
Receivables:			
Property tax:			
Delinquent	6,209	-	6,209
Succeeding year	450,000	-	450,000
<b>TOTAL ASSETS</b>	<b>\$ 596,024</b>	<b>195,755</b>	<b>791,779</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ -	35,063	35,063
Deferred revenue:			
Succeeding year property tax	450,000	-	450,000
Total liabilities	450,000	35,063	485,063
Fund balances:			
Restricted for:			
Management levy purposes	146,024	-	146,024
Student activities	-	160,692	160,692
Total fund balances	146,024	160,692	306,716
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 596,024</b>	<b>195,755</b>	<b>791,779</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		Total
	Manage- ment Levy	Student Activity	Nonmajor Governmental Funds
REVENUES:			
Local sources:			
Local tax	\$ 325,177	-	325,177
Other	24,846	330,901	355,747
State sources	203	-	203
TOTAL REVENUES	350,226	330,901	681,127
EXPENDITURES:			
Current:			
Instruction:			
Regular	180,682	-	180,682
Other	-	384,076	384,076
Support services:			
Instructional staff	2,540	-	2,540
Administration	16,440	-	16,440
Operation and maintenance of plant	98,704	-	98,704
Transportation	68,178	-	68,178
TOTAL EXPENDITURES	366,544	384,076	750,620
Net change in fund balances	(16,318)	(53,175)	(69,493)
Fund balance beginning of year	162,342	213,867	376,209
Fund balance end of year	\$ 146,024	160,692	306,716

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects				
	High School Building	Auditorium Project	Statewide Sales, Physical Plant Services and and Equipment		Total
			Use Tax	Levy	
<b>ASSETS</b>					
Cash and pooled investments	\$ 450,458	46	531,856	424,770	1,407,130
Property tax:					
Delinquent	-	-	-	9,326	9,326
Succeeding year	-	-	-	520,074	520,074
Due from other governments	-	-	270,646	229,888	500,534
<b>TOTAL ASSETS</b>	<b>\$ 450,458</b>	<b>46</b>	<b>802,502</b>	<b>1,184,058</b>	<b>2,437,064</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 265,069	-	-	15,313	280,382
Retainage payable	-	-	214,626	-	214,626
Deferred revenue:					
Succeeding year property tax	-	-	-	520,074	520,074
Total liabilities	265,069	-	214,626	535,387	1,015,082
Fund balances:					
Restricted for:					
Construction	185,389	46	-	-	185,435
School infrastructure	-	-	587,876	-	587,876
Physical plant and equipment	-	-	-	648,671	648,671
Total fund balances	185,389	46	587,876	648,671	1,421,982
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 450,458</b>	<b>46</b>	<b>802,502</b>	<b>1,184,058</b>	<b>2,437,064</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects				
	High School Building	Auditorium Project	Statewide Sales, Services and		Physical Plant and Equipment
			Use Tax	Levy	Total
REVENUES					
Local sources:					
Local tax	\$ -	-	1,310,349	498,698	1,809,047
Other	101,039	-	548	113,750	215,337
State sources	-	-	-	305	305
Federal sources	1,000,000	-	-	229,888	1,229,888
<b>TOTAL REVENUES</b>	<b>1,101,039</b>	<b>-</b>	<b>1,310,897</b>	<b>842,641</b>	<b>3,254,577</b>
EXPENDITURES:					
Current:					
Support services:					
Adminstration	-	-	1,500	-	1,500
Student transportation	-	-	-	127,434	127,434
Capital outlay	6,404,411	-	-	633,576	7,037,987
<b>TOTAL EXPENDITURES</b>	<b>6,404,411</b>	<b>-</b>	<b>1,500</b>	<b>761,010</b>	<b>7,166,921</b>
Excess(Deficiency) of revenues over(under) expenditures	(5,303,372)	-	1,309,397	81,631	(3,912,344)
Other financing sources(uses):					
Transfer out	-	-	(1,028,934)	-	(1,028,934)
Special item(Note 14)	-	-	-	352,210	352,210
<b>Total other financing sources(uses)</b>	<b>-</b>	<b>-</b>	<b>(1,028,934)</b>	<b>352,210</b>	<b>(676,724)</b>
Net change in fund balances	(5,303,372)	-	280,463	433,841	(4,589,068)
Fund balance beginning of year	5,488,761	46	307,413	214,830	6,011,050
Fund balance end of year	\$ 185,389	46	587,876	648,671	1,421,982

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
Student activities	\$ 35,316	388	24,774	10,047	20,977
HS drama	2,927	6,524	7,044	-	2,407
HS speech	-	1,128	740	-	388
HS vocal music	1,674	9,884	8,869	-	2,689
HS instrumental music	-	4,768	6,165	1,397	-
HS cross country	-	1,764	2,049	285	-
HS cheerleaders	2,756	4,379	4,764	-	2,371
HS dance team	888	4,488	2,358	-	3,018
HS boys basketball	11,950	12,748	12,051	-	12,647
HS football	19,248	37,280	56,528	-	-
HS soccer	-	5,833	15,400	9,567	-
HS baseball	-	20,120	26,344	6,224	-
HS boys track	-	8,552	14,237	5,685	-
HS boys golf	-	180	5,119	4,939	-
HS boys bowling	317	-	484	167	-
HS wrestling	-	6,023	7,266	1,243	-
HS girls basketball	-	17,661	18,079	418	-
HS volleyball	6,787	14,501	15,815	-	5,473
HS softball	-	4,976	10,487	5,511	-
HS girls track	-	4,862	7,213	2,351	-
HS girls golf	-	210	1,038	828	-
HS girls bowling	281	41	32	-	290
HS annual	1,539	22,587	11,474	(10,047)	2,605
HS newspaper	118	-	-	-	118
HS foreign language	127	-	-	-	127
HS art club	4,317	8,610	10,143	-	2,784
HS dance marathon	200	8,458	8,304	-	354
HS NHS	481	582	815	-	248
HS earth book	259	1,148	1,031	-	376
HS FFA	10,964	1,028	3,292	-	8,700
HS student recognition	2,882	77	1,300	-	1,659
HS La Onda	1,808	-	-	-	1,808
HS SADD	88	-	-	-	88
VOW	1,282	-	-	-	1,282
HS office ed-BPA	1,131	20,475	17,449	-	4,157
HS science club	537	-	-	-	537
HS student congress	4,403	1,162	1,022	-	4,543

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
Class of 2013	2,030	2,242	827	-	3,445
Class of 2014	2,075	280	133	-	2,222
Class of 2015	1,233	191	-	-	1,424
Class of 2016	1,901	604	-	-	2,505
Class of 2017	2,503	2,491	3,673	-	1,321
HS activities	14,511	46,374	9,016	(38,730)	13,139
HS fundraiser	310	-	-	-	310
HS general concessions	-	14,720	14,834	114	-
HS popcorn	8,786	-	54	-	8,732
HS candy sales	2,238	-	-	-	2,238
Demon café	1,323	135	172	-	1,286
MS vocal music	852	443	305	-	990
MS instrumental music	761	2,117	2,324	-	554
MS cross country	-	80	15	-	65
MS cheerleaders	2,814	1,771	2,991	-	1,594
MS dance team	339	1,845	992	-	1,192
MS boys basketball	1,468	1,957	1,736	-	1,689
MS football	-	4,227	4,624	397	-
MS boys track	-	872	1,220	348	-
MS wrestling	92	1,330	1,280	-	142
MS girls basketball	1,154	1,235	1,615	-	774
MS volleyball	3,135	1,740	768	-	4,107
MS girls track	-	706	756	50	-
MS student recognition	418	-	546	128	-
MS student congress	3,477	1,530	2,087	-	2,920
MS odyssey	306	-	-	-	306
MS snowball	5,159	990	1,171	-	4,978
MS activities	6,208	175	511	(922)	4,950
MS general fundraising	27,576	2,627	19,776	-	10,427
MS general concessions	3,841	6,135	6,867	-	3,109
LN activities	5,304	701	1,571	-	4,434
Stewart bookfair	766	2,681	2,376	-	1,071
Stewart activities	827	-	-	-	827
Assure center	180	265	150	-	295
Total	\$ 213,867	330,901	384,076	-	160,692

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

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 8,108,901	7,799,945	7,345,214	6,633,278	6,203,595	5,950,653	5,860,594	5,042,238	4,878,498
Tuition	412,140	545,104	458,126	429,759	480,801	521,579	463,363	481,870	422,320
Other	1,207,424	1,488,240	901,746	937,456	713,819	923,221	622,688	574,431	470,914
Intermediate sources	-	-	-	-	-	20,117	-	-	-
State sources	10,638,525	9,938,932	8,916,552	9,653,403	9,349,024	8,550,259	8,380,075	7,863,313	7,394,727
Federal sources	2,287,907	1,132,390	1,962,111	1,240,984	1,474,441	1,340,093	1,250,747	1,557,552	1,333,779
Total	<u>\$ 22,654,897</u>	<u>20,904,611</u>	<u>19,583,749</u>	<u>18,894,880</u>	<u>18,221,680</u>	<u>17,305,922</u>	<u>16,577,467</u>	<u>15,519,404</u>	<u>14,500,238</u>
Expenditures:									
Instruction:									
Regular	\$ 7,559,036	6,375,174	6,770,744	6,825,611	6,609,575	6,370,101	6,246,527	5,706,369	5,633,256
Special	2,655,443	2,533,722	2,468,311	2,086,619	2,148,999	2,267,721	1,927,512	1,781,379	1,661,340
Other	2,841,409	2,822,744	2,542,839	2,464,786	2,182,943	2,237,144	1,585,794	1,539,347	1,103,684
Support services:									
Student	377,984	430,355	434,332	449,929	648,992	769,657	1,067,968	1,225,400	1,356,971
Instructional staff	635,050	804,727	602,734	1,053,063	884,585	899,178	1,061,102	1,102,230	1,054,190
Administration	1,786,876	1,739,505	1,662,499	1,669,948	1,562,848	1,505,329	1,400,167	1,317,264	1,209,895
Operation and maintenance									
of plant	1,278,694	1,082,160	1,302,650	1,369,223	1,332,687	1,365,133	1,349,345	1,184,544	1,039,827
Transportation	818,430	598,627	692,328	549,254	676,839	740,808	693,682	450,799	719,057
Capital outlay	7,037,987	8,412,217	2,060,495	536,100	3,778,154	1,327,430	239,146	197,846	563,676
Long-term debt:									
Principal	1,355,000	-	-	-	-	-	-	102,500	102,500
Interest and other charges	612,787	661,191	500	-	-	-	-	3,663	8,343
Other expenditures:									
AEA flow-through	659,786	718,584	717,214	638,141	611,128	583,693	545,029	516,270	509,219
Total	<u>\$ 27,618,482</u>	<u>26,179,006</u>	<u>19,254,646</u>	<u>17,642,674</u>	<u>20,436,750</u>	<u>18,066,194</u>	<u>16,116,272</u>	<u>15,127,611</u>	<u>14,961,958</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	\$ 83,351
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	366,127 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 12	<u>32,526</u>
			<u>482,004</u>
U.S. DEPARTMENT OF ENERGY:			
IOWA DEPARTMENT OF ENERGY INDEPENDENCE:			
ARRA - ENERGY EFFICIENCY AND CONSERVATION			
BLOCK GRANT PROGRAM, RECOVERY ACT	81.128	DE-EE000812	<u>1,229,888</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I (SINA - SCHOOLS IN NEED OF ASSISTANCE)	84.010	FY 12	7,758
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-G	<u>279,012</u>
			<u>286,770 **</u>
ARRA - TITLE I GRANTS TO LOCAL			
EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 11	<u>40,476 **</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 12	<u>136,212</u>
GRANTS FOR STATE ASSESSMENTS AND			
RELATED ACTIVITIES (TITLE VIA)	84.369	FY 12	<u>10,771</u>
EDUCATION JOBS FUND	84.410	FY 11	352,032
EDUCATION JOBS FUND	84.410	FY 12	<u>5,211</u>
			<u>357,243</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 12	<u>95,660</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>17,556</u>
TOTAL			<u>\$ 2,656,580</u>

\* - Includes \$38,564 of non-cash awards.

\*\* - Total Title I Cluster Programs \$327,246.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

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

To the Board of Education of the  
Washington 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 Washington 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 April 25, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Washington Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Washington Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Washington Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Washington Community School District's internal control over financial reporting.

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

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

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

**Members American Institute & Iowa Society of Certified Public Accountants**

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

April 25, 2013

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

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

To the Board of Education of  
Washington Community School District

Compliance

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

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

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

Internal Control Over Compliance

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

Members American Institute & Iowa Society of Certified Public Accountants

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be significant deficiencies or material weaknesses.

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

April 25, 2013

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

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:

***Individual:***

- CFDA Number 81.128 - ARRA - Energy Efficiency and Conservation Block Grant Program, Recovery Act
- CFDA Number 84.367 - Improving Teacher Quality State Grants (Title IIA)
- CFDA Number 84.410 - Education Jobs Fund

***Clustered:***

- CFDA Number 84.010 - Title I (SINA - Schools in Need of Assistance)
- CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- CFDA Number 84.389 - Title I Grants to Local Educational Agencies, Recovery Act

- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Washington Community School District did not qualify as a low-risk auditee.

**Part II: Findings Related to the Basic Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. In addition, the work of the Business Manager is not being reviewed by another employee.

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

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

Conclusion - Response accepted.

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

Necessary adjustments to be made for proper recognition of receivables and payables were not being completed accurately. Accrued salaries and benefits at year end were not recorded. Material accounts payable were not recorded to the Student Activity Fund. Property tax and statewide sales, services and use tax receivable were not recorded for the proper amounts. Adjustments for capital asset additions and deletions were not completed by the District until after the District's Certified Annual Report had been filed with the Iowa Department of Education.

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

Response - The District will send staff to end-of-year training and have audit help prior to filing the CAR in the future to prevent these types of errors.

Conclusion - Response accepted.

- II-C-12 Purchase Orders - We noted during our audit that the District currently uses purchases orders in the purchasing process, however we noted purchase orders for the Student Activity Fund were being completed after the product had been ordered.

Recommendation -The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - The District will monitor the use of purchase orders so items are not purchased until the purchase order has been approved.

Conclusion - Response accepted.

II-D-12 Energy Capital Loan Notes - During our fiscal year 2011 audit, the initial payment of interest was due for the District's energy capital loan notes. The trustee, Banker's Trust, made the interest payment from the debt sinking account for the revenue bonds instead of requesting the payment from the District's General Fund. The District recorded a transfer of \$9,255 from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund.

In the prior year audit report, we requested that the District make a corrective transfer of \$9,255 from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund. The corrective transfer still had not been completed as of June 30, 2012.

Recommendation - The District needs to make the corrective transfer from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund for \$9,255.

Response - District staff will make corrective transfers and ensure bond payments are made from proper accounts.

Conclusion - Response accepted.

II-E-12 Flex Spending Account - We noted during our audit that the District has a flex spending account held at Washington State Bank that is not currently on the District's general ledger.

Recommendation - The District should make the necessary adjustments to account for the flex spending account on the District's general ledger.

Response - The District will make necessary adjustments to account for the flex spending account on the general ledger.

Conclusion - Response accepted.

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

#### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

#### **INTERNAL CONTROL DEFICIENCIES:**

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

### **Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-12 Certified Budget - District disbursements for the year ended June 30, 2012 exceeded the amount budgeted in the non-instructional programs functional area.

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 -In the future, the District will amend the budget in accordance with Chapter 24.9 of the Code of Iowa before the budgeted amounts are exceeded..

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Eric Turner, Board President		
Owns Washington Physical Therapy Services	Services	\$174
Mary Alice Smith, Special Education Director	Equipment	\$18,227
Spouse owns Community Medical	Supplies	\$830

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with the Board President do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transaction with the spouse of the special education director does not appear to represent a conflict of interest.

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

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

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

Response - The District will work with staff responsible for this task to ensure future minutes are published in a timely manner.

Conclusion- Response accepted.

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

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

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

IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely; however we noted several material deficiencies in the amounts reported that were subsequently corrected by the District.

**Adjustments to Ending Categorical Fund Balances:** The following adjustments were made to the following ending categorical fund balances due to the accrued payroll not being recorded at year end.

	Restricted Balance on District's CAR	Amount of Ending Balance Adjustment	Audited Ending Restricted Balance
Homeschool assistance program	\$ 59,423	\$ 21,006	\$ 38,417
Gifted and talented program	154,149	12,654	141,495
Allowable growth for returning dropouts and dropout prevention program	31,593	31,593	-
Four-year old preschool state aid	71,116	13,923	57,193
Teacher salary supplement	296,690	137,441	159,249

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

Response - The District will send staff to end-of-year training and review computer system reports prior to filing the CAR in the future to prevent these types of errors.

Conclusion - Response accepted.

IV-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds. However, we noted during our audit that the District has several state allocation and categorical funding carryover balances.

Recommendation - The District should review the state allocation and categorical funding carryover balances. The District should develop a plan for expending the carryover balances.

Response - The District is working on spending the categorical funding on a timely basis while making sure we are good stewards of the funds spending where and when appropriate.

Conclusion - Response accepted.

IV-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30,

2012, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit.

Beginning Balance		\$	307,413
Revenues:			
Sales tax revenues	\$	1,310,349	
Other local revenues		548	1,310,897
			<u>1,618,310</u>
Expenditures/Transfers out:			
Other	\$	1,500	
Transfers to other funds:			
Debt service		1,028,934	1,030,434
			<u>1,030,434</u>
Ending Balance		\$	<u>587,876</u>

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

IV-M-12 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required for the Private Purpose Trust Fund.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required for record retention.

Response - Trust accounts are being moved to West Chester Savings Bank. This bank will give the District copies of the backs of checks.

Conclusion - Response accepted.

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

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

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

Conclusion - Response accepted.

IV-O-12 Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students.

**Questionable Accounts:** The HS popcorn, HS fundraiser, HS candy sales do not appear to be extra curricular or cocurricular in nature. The money in these accounts is used for fundraising purposes for other accounts in the Student Activity Fund.

Recommendation - The District should review the propriety of revenues and expenditures that are recorded in these accounts. It would appear that these accounts are administratively maintained, rather than maintained by a club or organization. The District should review these accounts and reclassify/transfer to the appropriate accounts in the Student Activity Fund to be in compliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1).

Response - The District will appropriate the monies from these fundraising accounts to the Activity Fund accounts they are associated.

Conclusion - Response accepted.