

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

JUNE 30, 2013

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Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
Floyd Lavrenz	President	2015
Cheryl Grether	Vice President	2013
Keith Kuecker	Board Member	2013
Jody Solbach	Board Member	2015
Jay Limbaugh	Board Member	2013
Bruce Knudsen	Board Member	2015
Rodney Davis	Board Member	2015

School Officials

Marty Fonley	Superintendent	2013
Mary Beth Cooper	Board Secretary/Treasurer	2013
Stephen Avery	Attorney	2013
Tom Lipps	Attorney	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

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

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, business type activities, each major fund and the aggregate remaining fund information of Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Algona Community School District at June 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information.

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan and the combining statements for the discretely presented component units on pages 7 through 16 and 42 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Algona Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2012(which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 17, 2014 on our consideration of the Algona 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 in considering Algona Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

January 17, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$14,982,658 in fiscal 2012 to \$14,766,610 in fiscal 2013, while General Fund expenditures increased from \$14,074,581 in fiscal 2012 to \$14,562,875 in fiscal 2013. This resulted in an increase in the District's General Fund balance from \$2,164,041 in fiscal 2012 to \$2,367,776 in fiscal 2013.
- The decrease in General Fund revenues was attributable to decreases in federal source revenue in fiscal 2013. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.

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 Position and a Statement of Activities. These provide information about the activities of Algona 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 Algona 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 Algona Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

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

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

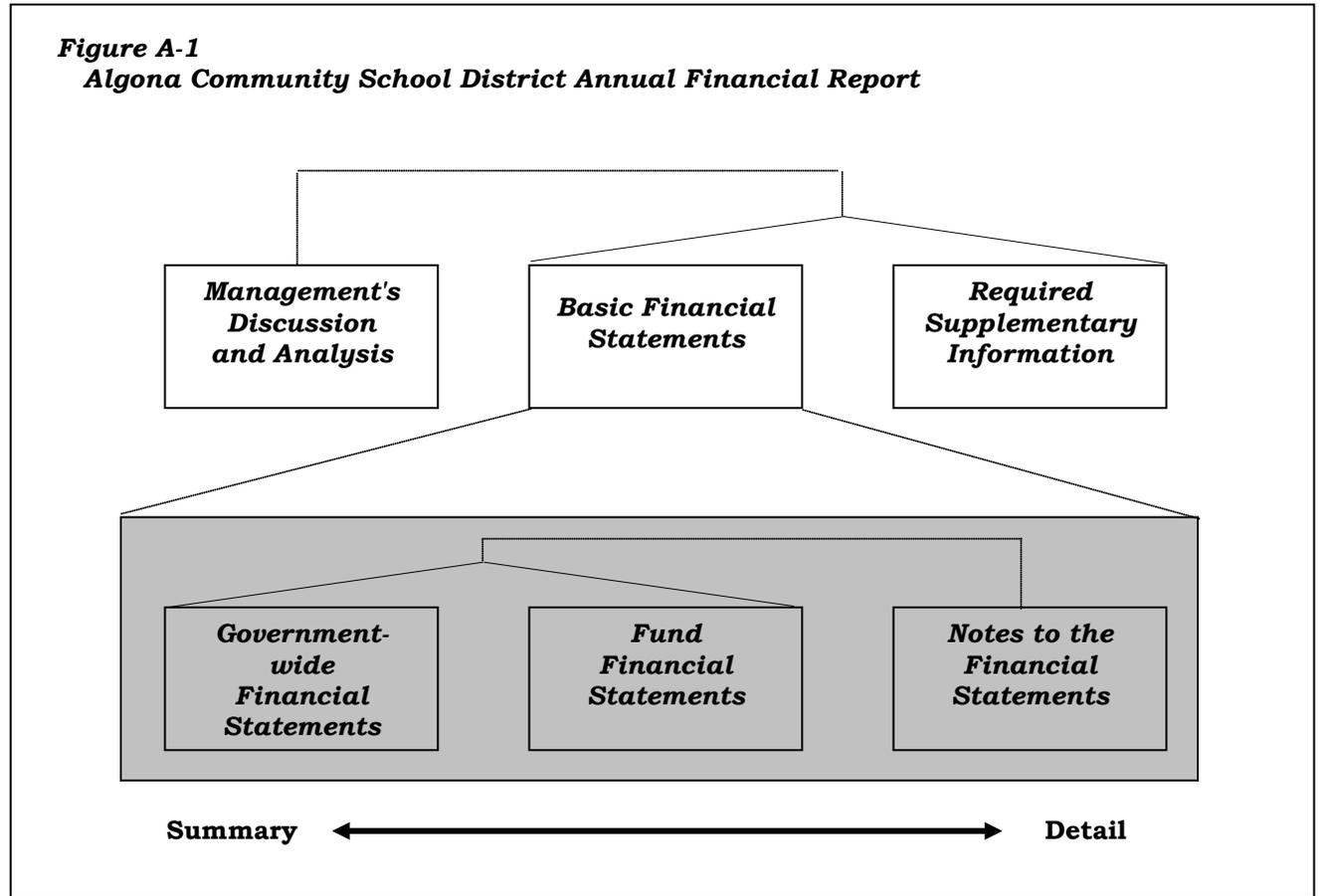


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	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"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position 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 position and how they have changed. Net position – 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 position is 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.
- *Component Unit*: The Algona Community School Foundation was created to develop, increase and extend the facilities and services of the Algona Community School District while providing for boarder educational opportunities. The foundation provides scholarships to graduates and classroom grants within the District.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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

as cash flows. The District currently has two internal service funds, which include the Self-Funded Health Insurance Fund and Flex Benefit Fund.

The required financial statements for the proprietary funds include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund includes the Agency Fund.

- Agency Fund - These are funds through which the District administers and accounts for certain outside organizations.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the 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 Position and a Statement of Changes in Fiduciary Net Position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net position at June 30, 2013 compared to June 30, 2012.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 13,596,779	13,207,697	45,499	34,002	13,642,278	13,241,699	3.03%
Capital assets	12,526,711	12,952,476	65,911	67,833	12,592,622	13,020,309	-3.28%
Total assets	26,123,490	26,160,173	111,410	101,835	26,234,900	26,262,008	-0.10%
Long-term obligations	8,513,995	8,802,583	15,609	10,616	8,529,604	8,813,199	-3.22%
Other liabilities	7,172,432	7,346,220	55,977	66,288	7,228,409	7,412,508	-2.48%
Total liabilities	15,686,427	16,148,803	71,586	76,904	15,758,013	16,225,707	-2.88%
Net position:							
Net investment in capital assets	4,476,711	4,497,476	65,911	67,833	4,542,622	4,565,309	-0.50%
Restricted	2,804,066	2,238,327	-	-	2,804,066	2,238,327	25.28%
Unrestricted	3,156,286	3,275,567	(26,087)	(42,902)	3,130,199	3,232,665	-3.17%
Total net position	\$ 10,437,063	10,011,370	39,824	24,931	10,476,887	10,036,301	4.39%

The District's combined net position increased by 4.39%, or \$440,586, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position increased \$565,739, or 25.28% over the prior year. The increase in restricted net position can be attributed to the increase in the carryover balance of the District's categorical funding in the General Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$102,466 or 3.17%. The decrease in unrestricted net position can be attributed to the increase in OPEB liability for the governmental activities during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-4 Changes of Net Position							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenues and Transfers							
Program revenues:							
Charges for services	\$ 1,980,654	1,914,726	305,546	296,503	2,286,200	2,211,229	3.39%
Operating grants, contributions and restricted interest	1,257,257	1,273,953	335,368	310,620	1,592,625	1,584,573	0.51%
General revenues:							
Property tax	6,221,236	6,148,651	-	-	6,221,236	6,148,651	1.18%
Income surtax	643,247	601,540	-	-	643,247	601,540	6.93%
Statewide sales, services and use tax	1,058,229	1,036,632	-	-	1,058,229	1,036,632	2.08%
Unrestricted state grants	5,708,556	5,512,827	-	-	5,708,556	5,512,827	3.55%
Nonspecific program federal grants	-	189,422	-	-	-	189,422	-100.00%
Unrestricted investment earnings	2,848	3,711	1	29	2,849	3,740	-23.82%
Other	162,277	256,465	16,524	10,554	178,801	267,019	-33.04%
Total revenues and transfers	17,034,304	16,937,927	657,439	617,706	17,691,743	17,555,633	0.78%
Program expenses:							
Governmental activities:							
Instruction	10,918,847	11,089,230	22,089	91,535	10,940,936	11,180,765	-2.15%
Support services	4,268,819	3,023,771	12,207	8,621	4,281,026	3,032,392	41.18%
Non-instructional programs	-	-	608,250	565,649	608,250	565,649	7.53%
Other expenses	1,420,945	1,595,694	-	-	1,420,945	1,595,694	-10.95%
Total expenses	16,608,611	15,708,695	642,546	665,805	17,251,157	16,374,500	5.35%
Change in net position	425,693	1,229,232	14,893	(48,099)	440,586	1,181,133	-62.70%
Net position beginning of year	10,011,370	8,782,138	24,931	73,030	10,036,301	8,855,168	13.34%
Net position end of year	\$ 10,437,063	10,011,370	39,824	24,931	10,476,887	10,036,301	4.39%

In fiscal 2013, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 80.02% of the revenue from governmental activities while charges for services and operating grants and contributions account for 97.49% of the revenue from business type activities.

The District's total revenues were approximately \$17.7 million of which approximately \$17.0 million was for governmental activities and approximately \$0.7 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 0.78% in revenues and a 5.35% increase in expenses. The increase in expenses was related to the increase in support services costs during the year. The increase in revenues was related to increases in local tax revenues.

Governmental Activities

Revenues for governmental activities were \$17,034,304 and expenses were \$16,608,611.

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

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 10,918,847	11,089,230	-1.54%	8,325,694	8,520,219	-2.28%
Support services	4,268,819	3,023,771	41.18%	4,154,927	2,925,004	42.05%
Other expenses	1,420,945	1,595,694	-10.95%	890,079	1,074,793	-17.19%
Totals	<u>\$ 16,608,611</u>	<u>15,708,695</u>	<u>5.73%</u>	<u>13,370,700</u>	<u>12,520,016</u>	<u>6.79%</u>

- The cost financed by users of the District's programs was \$1,980,654.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,257,257.
- The net cost of governmental activities was financed with \$6,221,236 in property tax, \$643,247 in income surtax, \$1,058,229 in statewide sales, services and use tax, \$5,708,556 in unrestricted state grants, \$2,848 in interest income and \$162,277 in other general revenues.

Business type Activities

Revenues for the District's business type activities were \$657,439 and expenses were \$642,546. The District's business type activities include the School Nutrition Fund and the Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,466,264, compared to last year's ending fund balances of \$3,857,154. However, the primary reason for the increase was due to the increase in fund balance of the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund balance increased from \$2,164,041 on June 30, 2012 to \$2,367,776 on June 30, 2013. The District's General Fund financial position is the product of many factors. Increases in local source revenues in 2013 help fund the increase in the balance of the General Fund.
- The Debt Service Fund balance decreased from \$818,111 to \$818,107, due to the increase of principal payments on the Districts revenue bond indebtedness.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$97,223 at June 30, 2012 to \$113,819 at June 30, 2013, representing an increase of 17.07%. The District's Preschool Fund net position decreased from a deficit balance of \$72,292 at June 30, 2012 to a deficit balance of \$73,995 at June 30, 2013.

BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Community School District amended its budget one time to reflect additional expenditures for repairs and other items in the non-instructional programs and other expenditures functional areas.

The District's revenues were \$258,294 more than budgeted revenues, a variance of 1.48%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted, primarily to the District's budget for the Capital Projects 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, the certified budget was exceeded in the support services, non-instructional programs and other expenditures functional areas and in total.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$12,592,622, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.28% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$653,039.

The original cost of the District's capital assets was \$24,141,869. Governmental funds account for \$23,987,652 with the remainder of \$154,217 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$93,284 at June 30, 2012 compared to \$212,515 at June 30, 2013. This increase resulted from the District resurfacing the track during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 87,674	87,674	-	-	87,674	87,674	0.00%
Buildings	11,438,286	11,881,457	-	-	11,438,286	11,881,457	-3.73%
Land improvements	212,515	93,284	-	-	212,515	93,284	127.82%
Machinery and equipment	788,236	890,061	65,911	67,833	854,147	957,894	-10.83%
Total	\$ 12,526,711	12,952,476	65,911	67,833	12,592,622	13,020,309	-3.28%

Long-Term Debt

At June 30, 2012, the District had long-term debt outstanding of \$8,529,604 in long-term debt outstanding. This represents a decrease of 3.22% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding Revenue Bonds payable from the Capital Projects Statewide Sales, Service and Use Tax Fund of \$8,050,000 at June 30, 2013.

The District had outstanding Termination Benefits payable from the Special Revenue, Management Fund of \$60,000 at June 30, 2013.

The District had a net OPEB liability of \$419,604 at June 30, 2013. Governmental Activities account for \$403,995 of the total while Business Type Activities account for the remaining \$15,609.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenue bonds	\$ 8,050,000	8,455,000	-	-	8,050,000	8,455,000	-4.79%
Termination benefits	60,000	72,664	-	-	60,000	72,664	-17.43%
Net OPEB liability	403,995	274,919	15,609	10,616	419,604	285,535	46.95%
Total	\$ 8,513,995	8,802,583	15,609	10,616	8,529,604	8,813,199	-3.22%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- On February 5, 2013, the Titonka Consolidated School District and the Algona Community School District held a public meeting for consolidation of the two districts. Residents of the Titonka Consolidated School District passed the resolution to merge with Algona Community School District on a 79.9% vote. Residents of the Algona Community School District passed a resolution to merge with Titonka Consolidated School District on a 95% vote. As of July 1, 2014, the two districts will be consolidated as one.

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 Mary Beth Cooper, District Treasurer, Algona Community School District, 600 S. Hale St., Algona, Iowa, 50511.

Basic Financial Statements

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Algona Community School Foundation
Assets				
Cash and pooled investments:	\$ 6,127,443	-	6,127,443	3,589,427
Receivables:				
Property tax:				
Delinquent	72,375	-	72,375	-
Succeeding year	5,954,990	-	5,954,990	-
Income surtax	546,423	-	546,423	-
Accounts	441	22,573	23,014	-
Due from other governments	895,107	3,847	898,954	-
Inventories	-	19,079	19,079	-
Capital assets, net of accumulated depreciation	12,526,711	65,911	12,592,622	-
Assets	26,123,490	111,410	26,234,900	3,589,427
Liabilities				
Warrants issued over bank balance	-	53,983	53,983	-
Accounts payable	882,889	600	883,489	-
Salaries and benefits payable	79,553	1,394	80,947	-
Retainage payable	10,000	-	10,000	-
Incurred but not reported	245,000	-	245,000	-
Deferred revenue:				
Succeeding year property tax	5,954,990	-	5,954,990	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	410,000	-	410,000	-
Termination benefits	20,880	-	20,880	-
Portion due after one year:				
Revenue bonds	7,640,000	-	7,640,000	-
Termination benefits	39,120	-	39,120	-
Net OPEB liability	403,995	15,609	419,604	-
Total Liabilities	15,686,427	71,586	15,758,013	-
Net Position				
Investment in capital assets, net of related debt	4,476,711	65,911	4,542,622	-
Restricted for:				
Scholarships	-	-	-	3,374,608
Categorical funding	749,574	-	749,574	-
Management levy purposes	408,097	-	408,097	-
Student activities	202,488	-	202,488	-
School infrastructure	536,309	-	536,309	-
Physical plant and equipment	88,770	-	88,770	-
Debt service	818,828	-	818,828	-
Unrestricted	3,156,286	(26,087)	3,130,199	214,819
Total Net Position	\$ 10,437,063	39,824	10,476,887	3,589,427

SEE NOTES TO FINANCIAL STATEMENTS.

**ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Algona Community School Foundation
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Total	
				Governmental Activities	Business Type Activities		
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 5,887,739	801,313	89,821	(4,996,605)	-	(4,996,605)	-
Special	2,977,543	630,727	105,790	(2,241,026)	-	(2,241,026)	-
Other	2,053,565	491,535	473,967	(1,088,063)	-	(1,088,063)	-
	<u>10,918,847</u>	<u>1,923,575</u>	<u>669,578</u>	<u>(8,325,694)</u>	<u>-</u>	<u>(8,325,694)</u>	<u>-</u>
Support services:							
Student	314,138	-	-	(314,138)	-	(314,138)	-
Instructional staff	457,137	-	-	(457,137)	-	(457,137)	-
Administration	1,162,372	43,742	-	(1,118,630)	-	(1,118,630)	-
Operation and maintenance of plant	1,761,539	-	-	(1,761,539)	-	(1,761,539)	-
Transportation	573,633	13,337	56,813	(503,483)	-	(503,483)	-
	<u>4,268,819</u>	<u>57,079</u>	<u>56,813</u>	<u>(4,154,927)</u>	<u>-</u>	<u>(4,154,927)</u>	<u>-</u>
Long-term debt interest	393,528	-	-	(393,528)	-	(393,528)	-
Other expenditures:							
AEA flowthrough	530,866	-	530,866	-	-	-	-
Depreciation(unallocated)*	496,551	-	-	(496,551)	-	(496,551)	-
	<u>1,027,417</u>	<u>-</u>	<u>530,866</u>	<u>(496,551)</u>	<u>-</u>	<u>(496,551)</u>	<u>-</u>
Total governmental activities	<u>16,608,611</u>	<u>1,980,654</u>	<u>1,257,257</u>	<u>(13,370,700)</u>	<u>-</u>	<u>(13,370,700)</u>	<u>-</u>
Business Type activities:							
Instruction:							
Regular	22,089	-	-	-	(22,089)	(22,089)	-
Support services:							
Administration	6,069	-	-	-	(6,069)	(6,069)	-
Operation and maintenance of plant	6,138	-	-	-	(6,138)	(6,138)	-
	<u>12,207</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,207)</u>	<u>(12,207)</u>	<u>-</u>
Non-instructional programs:							
Nutrition services	608,250	305,546	335,368	-	32,664	32,664	-
Total business type activities	<u>642,546</u>	<u>305,546</u>	<u>335,368</u>	<u>-</u>	<u>(1,632)</u>	<u>(1,632)</u>	<u>-</u>
Total primary government	\$ <u>17,251,157</u>	<u>2,286,200</u>	<u>1,592,625</u>	<u>(13,370,700)</u>	<u>(1,632)</u>	<u>(13,372,332)</u>	<u>-</u>
Total component unit	\$ <u>265,254</u>	<u>-</u>	<u>278,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,077</u>
General revenues							
Property tax levied for:							
General purposes				\$ 5,690,940	-	5,690,940	-
Capital outlay				530,296	-	530,296	-
Income surtax				643,247	-	643,247	-
Statewide sales, service and use tax				1,058,229	-	1,058,229	-
Unrestricted state grants				5,708,556	-	5,708,556	-
Unrestricted investment earnings				2,848	1	2,849	87,501
Realized gain on investments				-	-	-	55,884
Unrealized gain on investments				-	-	-	264,031
Other general revenues				162,277	16,524	178,801	-
Total general revenues				<u>13,796,393</u>	<u>16,525</u>	<u>13,812,918</u>	<u>407,416</u>
Changes in net position				425,693	14,893	440,586	420,493
Net position beginning of year				10,011,370	24,931	10,036,301	3,168,934
Net position end of year				\$ <u>10,437,063</u>	<u>39,824</u>	<u>10,476,887</u>	<u>3,589,427</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Debt Service	Nonmajor	Total
Assets				
Cash and pooled investments:	\$ 1,924,166	1,419,871	1,126,746	4,470,783
Receivables:				
Property tax:				
Delinquent	62,700	-	9,675	72,375
Succeeding year	5,105,868	-	849,122	5,954,990
Income surtax	546,423	-	-	546,423
Accounts	441	-	-	441
Due from other governments	727,652	-	167,455	895,107
Total Assets	\$ 8,367,250	1,419,871	2,152,998	11,940,119
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 267,630	601,764	13,495	882,889
Salaries and benefits payable	79,553	-	-	79,553
Retainage payable	-	-	10,000	10,000
Deferred revenue:				
Succeeding year property tax	5,105,868	-	849,122	5,954,990
Income surtax	546,423	-	-	546,423
Total Liabilities	5,999,474	601,764	872,617	7,473,855
Fund balances:				
Restricted for:				
Categorical funding	749,574	-	-	749,574
Management levy purposes	-	-	468,097	468,097
Student activities	-	-	202,488	202,488
School infrastructure	-	-	536,309	536,309
Physical plant and equipment	-	-	88,770	88,770
Debt service	-	818,828	-	818,828
Unassigned:				
General	1,618,202	-	-	1,618,202
Student activities	-	-	(15,283)	(15,283)
Debt service	-	(721)	-	(721)
Total fund balances	2,367,776	818,107	1,280,381	4,466,264
Total Liabilities and Fund Balances	\$ 8,367,250	1,419,871	2,152,998	11,940,119

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$	4,466,264
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		12,526,711
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,411,660
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		546,423
Long-term liabilities, including bonds payable, termination benefits payable and other postemployment benefits payable are not due and payable in the current period and, therefore are not reported in governmental funds.		<u>(8,513,995)</u>
Net position of governmental activities(page 18)	\$	<u><u>10,437,063</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Debt Service	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	\$ 6,096,458	-	1,889,246	7,985,704
Tuition	1,423,130	-	-	1,423,130
Other	289,004	56	444,745	733,805
State sources	6,652,216	-	-	6,652,216
Federal sources	302,441	-	-	302,441
Total revenues	<u>14,763,249</u>	<u>56</u>	<u>2,333,991</u>	<u>17,097,296</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	5,731,543	-	136,821	5,868,364
Special	2,941,913	-	-	2,941,913
Other	1,629,486	-	409,059	2,038,545
	<u>10,302,942</u>	<u>-</u>	<u>545,880</u>	<u>10,848,822</u>
Support services:				
Student	312,351	-	8,074	320,425
Instructional staff	336,173	-	120,076	456,249
Administration	1,110,544	-	5,085	1,115,629
Operation and maintenance of plant	1,472,311	-	343,948	1,816,259
Transportation	497,688	-	-	497,688
	<u>3,729,067</u>	<u>-</u>	<u>477,183</u>	<u>4,206,250</u>
Capital outlay	-	-	191,766	191,766
Long-term debt:				
Principal	-	405,000	-	405,000
Interest and fiscal charges	-	393,528	-	393,528
	<u>-</u>	<u>798,528</u>	<u>-</u>	<u>798,528</u>
Other expenditures:				
AEA flowthrough	530,866	-	-	530,866
	<u>530,866</u>	<u>-</u>	<u>-</u>	<u>530,866</u>
Total expenditures	<u>14,562,875</u>	<u>798,528</u>	<u>1,214,829</u>	<u>16,576,232</u>
Excess(Deficiency) of revenues over(under) expenditures	200,374	(798,472)	1,119,162	521,064
Other financing sources(uses):				
Sale of equipment	3,361	-	-	3,361
Transfers in	-	798,468	-	798,468
Transfers out	-	-	(798,468)	(798,468)
Insurance proceeds	-	-	84,685	84,685
Total other financing sources(uses)	<u>3,361</u>	<u>798,468</u>	<u>(713,783)</u>	<u>88,046</u>
Net change in fund balances	203,735	(4)	405,379	609,110
Fund balance beginning of year	<u>2,164,041</u>	<u>818,111</u>	<u>875,002</u>	<u>3,857,154</u>
Fund balance end of year	<u>\$ 2,367,776</u>	<u>818,107</u>	<u>1,280,381</u>	<u>4,466,264</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA 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, 2013

Net change in fund balances - total governmental funds(page 22)	\$	609,110
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
 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 outlays expenditures and depreciation expense in the current year are as follows:		
Capital expenditures	\$ 218,954	
Depreciation expense	<u>(644,719)</u>	(425,765)
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position.		
		405,000
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		(62,992)
 Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		
		16,752
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.		
Termination benefits	\$ 12,664	
Other postemployment benefits	<u>(129,076)</u>	<u>(116,412)</u>
 Changes in net position of governmental activities(page 19)	 \$	 <u><u>425,693</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School	Preschool	Total	Self-Funded	Flex	Total
	Nutrition			Insurance	Benefit	
Assets						
Cash and cash equivalents	\$ 20,460	-	20,460	1,620,290	36,370	1,656,660
Accounts receivable	22,573	-	22,573	-	-	-
Due from other governments	-	3,847	3,847	-	-	-
Inventories	19,079	-	19,079	-	-	-
Capital assets, net of accumulated depreciation	65,911	-	65,911	-	-	-
Total Assets	128,023	3,847	131,870	1,620,290	36,370	1,656,660
Liabilities						
Current liabilities:						
Warrants issued over bank balance	-	74,443	74,443	-	-	-
Accounts payable	600	-	600	-	-	-
Salaries and benefits payable	1,394	-	1,394	-	-	-
Incurred but not reported	-	-	-	245,000	-	245,000
Total current liabilities	1,994	74,443	76,437	245,000	-	245,000
Long-term liabilities:						
Net OPEB liability	12,210	3,399	15,609	-	-	-
Total long-term liabilities	12,210	3,399	15,609	-	-	-
Total Liabilities	14,204	77,842	92,046	245,000	-	245,000
Net Position						
Investment in capital assets	65,911	-	65,911	-	-	-
Unrestricted	47,908	(73,995)	(26,087)	1,375,290	36,370	1,411,660
Total Net Position	\$ 113,819	(73,995)	39,824	1,375,290	36,370	1,411,660

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School	Preschool	Total	Self-Funded	Flex	Total
	Nutrition			Insurance	Benefit	
OPERATING REVENUE:						
Local sources:						
Charges for services	\$ 305,546	-	305,546	-	-	-
Miscellaneous	3,758	12,766	16,524	1,798,469	71,983	1,870,452
TOTAL OPERATING REVENUES	309,304	12,766	322,070	1,798,469	71,983	1,870,452
OPERATING EXPENSES:						
Instructional:						
Regular:						
Salaries	-	16,993	16,993	-	-	-
Benefits	-	2,768	2,768	-	-	-
Supplies	-	2,328	2,328	-	-	-
	-	22,089	22,089	-	-	-
Support services:						
Administration:						
Benefits	-	-	-	1,469,349	-	1,469,349
Services	6,069	-	6,069	333,627	56,380	390,007
Operation and maintenance of plant:						
Services	6,138	-	6,138	-	-	-
	12,207	-	12,207	1,802,976	56,380	1,859,356
Non-instructional programs:						
Food service operations:						
Salaries	182,977	-	182,977	-	-	-
Benefits	71,016	-	71,016	-	-	-
Services	1,330	-	1,330	-	-	-
Supplies	343,807	-	343,807	-	-	-
Depreciation	8,320	-	8,320	-	-	-
Other	800	-	800	-	-	-
	608,250	-	608,250	-	-	-
TOTAL OPERATING EXPENSES	620,457	22,089	642,546	1,802,976	56,380	1,859,356
OPERATING LOSS	(311,153)	(9,323)	(320,476)	(4,507)	15,603	11,096
NON-OPERATING REVENUES:						
Interest	1	-	1	5,654	2	5,656
State sources	6,189	7,620	13,809	-	-	-
Federal sources	321,559	-	321,559	-	-	-
TOTAL NON-OPERATING REVENUES	327,749	7,620	335,369	5,654	2	5,656
Changes in net position	16,596	(1,703)	14,893	1,147	15,605	16,752
Net position beginning of year	97,223	(72,292)	24,931	1,374,143	20,765	1,394,908
Net position end of year	\$ 113,819	(73,995)	39,824	1,375,290	36,370	1,411,660

SEE NOTES TO FINANCIAL STATEMENTS.

**ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2013**

	Business Type Activities: Enterprise Funds			Governmental Activities Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
	Cash flows from operating activities:					
Cash received from sale of lunches and breakfasts	\$ 294,215	-	294,215	-	-	-
Cash received from miscellaneous operating activities	3,758	8,919	12,677	1,803,797	71,983	1,875,780
Cash payments to employees for services	(249,685)	(18,663)	(268,348)	(1,448,349)	(56,380)	(1,504,729)
Cash payments to suppliers for goods or services	(309,543)	(2,463)	(312,006)	(333,627)	-	(333,627)
Net cash provided by(used in) operating activities	(261,255)	(12,207)	(273,462)	21,821	15,603	37,424
Cash flows from non-capital financing activities:						
Borrowings from the General Fund	-	-	-	(2,664)	-	(2,664)
State grants received	6,189	7,620	13,809	-	-	-
Federal grants received	269,683	-	269,683	-	-	-
Net cash provided by(used in) non-capital financing activities	275,872	7,620	283,492	(2,664)	-	(2,664)
Cash flows from investing activities:						
Interest on investments	1	-	1	5,654	2	5,656
Cash flows from capital financing activities:						
Purchase of assets	(6,398)	-	(6,398)	-	-	-
Net increase(decrease) in cash and cash equivalents	8,220	(4,587)	3,633	24,811	15,605	40,416
Cash and cash equivalents at beginning of year	12,240	(69,856)	(57,616)	1,595,479	20,765	1,616,244
Cash and cash equivalents at end of year	\$ 20,460	(74,443)	(53,983)	1,620,290	36,370	1,656,660
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:						
Operating income(loss)	\$ (311,153)	(9,323)	(320,476)	(4,507)	15,603	11,096
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:						
Commodities consumed	51,876	-	51,876	-	-	-
Depreciation	8,320	-	8,320	-	-	-
Increase in inventories	(3,699)	-	(3,699)	-	-	-
Decrease(increase) in accounts receivable	(3,951)	(3,847)	(7,798)	5,328	-	5,328
Increase(decrease) in accounts payable	424	(135)	289	-	-	-
Increase in salaries and benefits payable	413	-	413	-	-	-
Increase in incurred but not reported	-	-	-	21,000	-	21,000
Decrease in unearned revenue	(7,380)	-	(7,380)	-	-	-
Increase in other postemployment benefits payable	3,895	1,098	4,993	-	-	-
Net cash provided by(used in) operating activities	\$ (261,255)	(12,207)	(273,462)	21,821	15,603	37,424

Non-cash investing, capital and financing activities:

During the year ended June 30, 2013, the District received \$51,876 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2013

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 2,991
Total Assets	<u>\$ 2,991</u>
Liabilities	
Due to other groups	\$ 2,991
Total Liabilities	<u>\$ 2,991</u>

SEE NOTES TO FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Algona 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.

These financial statements present Algona Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit – The Algona Community School Foundation was created to financially support the Algona Community School system and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The foundation is accounted for as a component unit in these financial statements with the year ending December 31, 2012.

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 Kossuth County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the activities of the District, with omission of the fiduciary funds. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets, net or related debt consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets. Unspent bond proceeds for construction have been added back to invested in capital assets.

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

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

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise, Preschool Fund, the Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for preschool operations of the District. The Internal Service, Self-Funded Insurance Fund is used to account for the District's self-funded health insurance plan. The Internal Service, Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. 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 position 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 - assigned and then unassigned fund balances.

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and governmental 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, equipment, and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. 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	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
Intangibles	75,000
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

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

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Compensated absences are reported in governmental funds only if they have matured. The cost of vacation payments expected to be liquidated currently is recorded as a long-term liability on the Statement of Net Position and will be paid in the future out of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be primarily paid by the General Fund.

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

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 preceding classifications.

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013 expenditures in the support services, non-instructional programs, other expenditures functional areas, and in total exceeded the budgeted amounts.

Note 2. Cash and Pooled Investments

The District’s deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$7,104 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.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 798,468</u>

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

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 147,819	6,398	-	154,217
Less accumulated depreciation	79,986	8,320	-	88,306
Business type activities capital assets, net	<u>\$ 67,833</u>	<u>(1,922)</u>	<u>-</u>	<u>65,911</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 87,674	-	-	87,674
Total capital assets not being depreciated	<u>87,674</u>	-	-	<u>87,674</u>
Capital assets being depreciated:				
Buildings	18,948,045	29,284	-	18,977,329
Land improvements	687,232	143,327	-	830,559
Machinery and equipment	4,045,747	46,343	-	4,092,090
Total capital assets being depreciated	<u>23,681,024</u>	<u>218,954</u>	-	<u>23,899,978</u>
Less accumulated depreciation for:				
Buildings	7,066,588	472,455	-	7,539,043
Land improvements	593,948	24,096	-	618,044
Machinery and equipment	3,155,686	148,168	-	3,303,854
Total accumulated depreciation	<u>10,816,222</u>	<u>644,719</u>	-	<u>11,460,941</u>
Total capital assets being depreciated, net	<u>12,864,802</u>	<u>(425,765)</u>	-	<u>12,439,037</u>
Governmental activities capital assets, net	<u>\$ 12,952,476</u>	<u>(425,765)</u>	-	<u>12,526,711</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 32,527
Other	13,709
Support services:	
Administration services	7,091
Operation and maintenance of plant services	21,335
Transportation	<u>73,506</u>
	148,168
Unallocated depreciation	<u>496,551</u>
Total governmental activities depreciation expense	<u>\$ 644,719</u>
Business type activities:	
Food services	<u>\$ 8,320</u>

Note 5. Long-Term Debt

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 8,455,000	-	405,000	8,050,000	410,000
Early retirement	72,664	60,000	72,664	60,000	20,880
Net OPEB liability	274,919	129,076	-	403,995	-
Total	\$ 8,802,583	189,076	477,664	8,513,995	430,880
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 10,616	4,993	-	15,609	-

Revenue Bonds

Details of the District's June 30, 2013 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 28, 2009			
	Interest Rate	Principal	Interest	Total
2014	4.00	% \$ 410,000	375,828	785,828
2015	4.00	420,000	324,383	744,383
2016	4.00	430,000	314,320	744,320
2017	4.00	435,000	342,628	777,628
2018	4.20	445,000	325,428	770,428
2019-2023	4.38-4.88	2,430,000	1,262,877	3,692,877
2024-2028	5.00-5.15	2,845,000	608,782	3,453,782
2029	5.20	635,000	33,020	668,020
Total		\$ 8,050,000	3,587,266	11,637,266

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,645,000 bonds issued July 28, 2009. The bonds were issued for the purpose of defraying a portion of the cost of construction for the new Middle School for 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 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on bonds are expected to require approximately 74 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$11,637,266. For the current year \$405,000 of principal and \$392,028 in interest was paid on the bonds and total statewide sales services and use tax revenues were \$1,058,229.

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

- a) \$818,828 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Termination Benefits

During the year ended June 30, 2013, the District offered a voluntary early retirement plan to its employees. Eligible employees must be a full-time teacher or administrator that will reach age 55 before June 30, 2013. Eligible employees must have completed fifteen years of continuous service to the District.. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement benefits are \$20,000 paid to insurance premiums until the amount is exhausted. The policy requires early retirement benefits be paid to insurance premiums on an annual basis until exhausted.

As of June 30, 2013 the District has obligations to three participants with a total liability of \$60,000. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$72,664.

Note 6. Other Postemployment Benefits(OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 207 active and 12 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 206,566
Interest on net OPEB obligation	7,138
Adjustment to annual required contribution	<u>(23,378)</u>
Annual OPEB cost	190,326
Contributions made	<u>(56,257)</u>
Increase in net OPEB obligation	134,069
Net OPEB obligation beginning of year	285,535
Net OPEB obligation end of year	<u><u>\$ 419,604</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$56,257 to the medical plan.

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, 2013 is summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 112,980	81.25%	\$ 124,491
2012	228,365	29.48%	285,535
2013	190,326	29.56%	419,604

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,550,869 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,550,869. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,421,367 and the ratio of the UAAL to covered payroll was 18.4%. As of June 30, 2013, there were no trust fund assets.

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

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

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$606 per month for the retirees and spouses less than 65. The implicit subsidy portion of the UAAL is being amortized as a level percentage of the projected payroll expense on an open basis over 30 years.

Note 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 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The District’s contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$737,606, \$679,688 and \$555,313, respectively, equal to the required contributions for each year.

Note 8. Risk Management

Algona Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$530,866 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Categorical Funding

The District’s restricted balance for categorical funding at June 30, 2013 is comprised of the following programs:

<u>Programs</u>	<u>Amount</u>
Limited english proficiency weighting	\$ 6,275
Gifted and talented	78,367
Dropout and dropout prevention	169,585
Four-year old preschool state aid	353,146
Iowa early intervention block grant	24,197
Textbook aid for nonpublic students	2,202
Professional development for model core curriculum	105,189
Professional development	1,916
Market factor incentives	8,697
Total	<u>\$ 749,574</u>

Note 11. Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2013, the District exceeded its budget amount in the support services, non-instructional programs, and other expenditures functional area and in total.

Note 12. Deficit Fund Balances/Net Position

The District had deficit unrestricted net position in the Enterprise: Preschool Fund of \$73,995 and a total deficit unrestricted net position in the Enterprise Funds of \$26,087. The District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund of \$15,283 consisting of ten Student Activity accounts carrying a deficit balance at June 30, 2013. The District also had a deficit unassigned fund balance in the Debt Service Fund of \$721.

Algona Community School District

Required Supplementary Information

ALGONA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
Revenues:						
Local sources	\$ 10,142,639	322,071	10,464,710	10,184,507	10,184,507	280,203
State sources	6,652,216	13,809	6,666,025	6,645,934	6,645,934	20,091
Federal sources	302,441	321,559	624,000	666,000	666,000	(42,000)
Total revenues	17,097,296	657,439	17,754,735	17,496,441	17,496,441	258,294
Expenditures/expenses:						
Instruction	10,848,822	22,089	10,870,911	10,935,000	10,935,000	64,089
Support services	4,206,250	12,207	4,218,457	4,014,000	4,014,000	(204,457)
Non-instructional programs	-	608,250	608,250	525,000	550,000	(58,250)
Other expenditures	1,521,160	-	1,521,160	1,359,876	1,500,000	(21,160)
Total expenditures/expenses	16,576,232	642,546	17,218,778	16,833,876	16,999,000	(219,778)
Excess of revenues over expenditures/expenses	521,064	14,893	535,957	662,565	497,441	38,516
Other financing sources(uses), net	88,046	-	88,046	34,000	34,000	54,046
Excess of revenues and other financing sources under expenditures/expenses and other financing uses	609,110	14,893	624,003	696,565	531,441	92,562
Balance beginning of year	3,857,154	24,931	3,882,085	3,932,171	3,932,171	(50,086)
Balance end of year	\$ 4,466,264	39,824	4,506,088	4,628,736	4,463,612	42,476

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment, increasing budgeted expenditures by \$165,124.

During the year ended June 30, 2013, the expenditures in support services, non-instructional programs, and other expenditures functional areas and in total exceeded the amounts budgeted.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 1,360,117	\$ 1,360,117	0.0%	\$ 6,971,296	19.5%
2010	July 1, 2008	-	1,360,117	1,360,117	0.0%	6,545,082	20.8%
2011	July 1, 2008	-	1,360,117	1,360,117	0.0%	7,837,500	17.4%
2012	July 1, 2011	-	1,611,343	1,611,343	0.0%	8,312,448	19.4%
2013	July 1, 2011	-	1,550,869	1,550,869	0.0%	8,421,367	18.4%

See Note 6 in the accompanying Notes to the 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.

ALGONA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF ASSETS, LIABILITIES AND NET POSITION - CASH BASIS
 COMPONENT UNIT
 DECEMBER 31, 2012

	Algona Community School Foundation
ASSETS	
Cash and pooled investments	\$ 3,589,427
LIABILITIES	
	-
NET POSITION	
Restricted for scholarships	3,374,608
Unrestricted	214,819
TOTAL NET POSITION	\$ 3,589,427

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2012

	Algona Community School Foundation
Revenue:	
Related organizations	\$ 2,945
Contributions, gifts, grants and similar amounts	275,386
Interest	87,501
Unrealized gains on investments	264,031
Realized gain on investments	55,884
Total revenue	685,747
Expenses:	
Grants	227,805
Management	6,915
Accounting	4,800
Investment management fees	18,974
Advertising and promotion	316
Insurance	216
Fundraising supplies	4,020
Postage and shipping	846
Foreign tax on dividends	618
Garrigan reimbursement	394
Other	350
Total expenses	265,254
Excess of revenue over expenses	420,493
Net position beginning of year	3,168,934
Net position end of year	\$ 3,589,427

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

ALGONA COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total		
Assets					
Cash and pooled investments	\$ 464,599	196,915	661,514	465,232	1,126,746
Receivables:					
Property tax:					
Delinquent	3,498	-	3,498	6,177	9,675
Succeeding year	300,003	-	300,003	549,119	849,122
Due from other governments	-	-	-	167,455	167,455
Total Assets	<u>\$ 768,100</u>	<u>196,915</u>	<u>965,015</u>	<u>1,187,983</u>	<u>2,152,998</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	9,710	9,710	3,785	13,495
Retainage payable	-	-	-	10,000	10,000
Deferred revenue:					
Succeeding year property tax	300,003	-	300,003	549,119	849,122
Total liabilities	<u>300,003</u>	<u>9,710</u>	<u>309,713</u>	<u>562,904</u>	<u>872,617</u>
Fund balances:					
Restricted for:					
Management levy purposes	468,097	-	468,097	-	468,097
Student activities	-	202,488	202,488	-	202,488
School infrastructure	-	-	-	536,309	536,309
Physical plant and equipment	-	-	-	88,770	88,770
Unassigned:					
Student activities	-	(15,283)	(15,283)	-	(15,283)
Total fund balances	<u>468,097</u>	<u>187,205</u>	<u>655,302</u>	<u>625,079</u>	<u>1,280,381</u>
Liabilities and Fund Balances	<u>\$ 768,100</u>	<u>196,915</u>	<u>965,015</u>	<u>1,187,983</u>	<u>2,152,998</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Special Revenue			Capital Projects	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total		
REVENUES:					
Local sources:					
Local tax	\$ 300,721	-	300,721	1,588,525	1,889,246
Other	8,006	436,555	444,561	184	444,745
TOTAL REVENUES	308,727	436,555	745,282	1,588,709	2,333,991
EXPENDITURES:					
Current:					
Instruction:					
Regular	136,821	-	136,821	-	136,821
Other	-	409,059	409,059	-	409,059
	136,821	409,059	545,880	-	545,880
Support services:					
Student	8,074	-	8,074	-	8,074
Instructional staff	-	-	-	120,076	120,076
Administration	5,085	-	5,085	-	5,085
Operation and maintenance of plant	215,712	-	215,712	128,236	343,948
Capital outlay	-	-	-	191,766	191,766
TOTAL EXPENDITURES	365,692	409,059	774,751	440,078	1,214,829
Excess(deficiency) of revenues over(under) expenditures	(56,965)	27,496	(29,469)	1,148,631	1,119,162
Other financing sources(uses):					
Transfers out	-	-	-	(798,468)	(798,468)
Insurance proceeds	-	-	-	84,685	84,685
Total other financing sources(uses)	-	-	-	(713,783)	(713,783)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(56,965)	27,496	(29,469)	434,848	405,379
Fund balance beginning of year	525,062	159,709	684,771	190,231	875,002
Fund balance end of year	\$ 468,097	187,205	655,302	625,079	1,280,381

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 378,854	86,378	465,232
Receivables:			
Delinquent	-	6,177	6,177
Succeeding year	-	549,119	549,119
Due from other governments	167,455	-	167,455
Total assets	\$ 546,309	641,674	1,187,983
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ -	3,785	3,785
Retainage payable	10,000	-	10,000
Deferred revenue			
Succeeding year property tax	-	549,119	549,119
Total liabilities	10,000	552,904	562,904
Fund balances:			
Restricted for:			
School infrastructure	536,309	-	536,309
Physical plant and equipment	-	88,770	88,770
Total fund balances	536,309	88,770	625,079
Total liabilities and fund balances	\$ 546,309	641,674	1,187,983

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 1,058,229	530,296	1,588,525
Other	130	54	184
Total revenues	<u>1,058,359</u>	<u>530,350</u>	<u>1,588,709</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	-	120,076	120,076
Operation and maintenance of plant	-	128,236	128,236
Capital outlay	85,685	106,081	191,766
Total expenditures	<u>85,685</u>	<u>354,393</u>	<u>440,078</u>
Excess of revenues over expenditures	972,674	175,957	1,148,631
Other financing uses:			
Transfer out	(798,468)	-	(798,468)
Insurance proceeds	-	84,685	84,685
Total other financing sources	<u>(798,468)</u>	<u>84,685</u>	<u>(713,783)</u>
Excess of revenues and other financing sources over expenditures	174,206	260,642	434,848
Fund balances beginning of year	<u>362,103</u>	<u>(171,872)</u>	<u>190,231</u>
Fund balances end of year	<u>\$ 536,309</u>	<u>88,770</u>	<u>625,079</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (10,008)	58,795	52,824	(4,037)
Concession equipment	(1,414)	185	95	(1,324)
Interest	-	92	92	0
Public broadcasting	602	170	160	612
Special advertising	34,572	17,690	18,644	33,618
MS boys baseball	2,022	-	0	2,022
MS-vocal music	(57)	-	0	(57)
MS-instrumental music	1,549	4,272	8,548	(2,727)
MS-vocal/band uniforms	1,130	164	54	1,240
MS-quiz bowl	1,129	400	353	1,176
MS-science fair	-	512	0	512
MS-student senate	2,197	271	280	2,188
MS-yearbook	394	2,845	3,000	239
HS drama/speech	7,004	20,445	20,563	6,886
HS-vocal music	14,260	17,493	18,745	13,008
HS-instrumental music	4,388	21,212	16,054	9,546
HS-vocal/band uniforms	(966)	1,345	2,017	(1,638)
HS swing choir & band	1,449	-	0	1,449
HS band tour	394	7,608	7,123	879
HS vocal tour	-	370	0	370
HS athletics general	35,673	23,031	16,354	42,350
HS cross country	-	1,489	1,489	0
HS boys basketball	-	5,468	5,468	0
HS boys football	-	11,608	11,608	0
HS baseball	(2,022)	6,151	6,151	(2,022)
HS boys track	-	4,968	4,968	0
HS boys golf	-	446	446	0
HS wrestling	-	3,456	3,177	279
HS girls basketball	-	4,774	4,774	0
HS volleyball	-	5,676	5,676	0
HS softball	-	3,854	3,854	0
HS girls track	-	1,877	1,877	0
HS girls golf	-	742	777	(35)
HS projects	641	3,098	4,471	(732)
HS-ACT-ELC	3,549	267	367	3,449
TNT	371	-	0	371
HS cheerleaders	3,829	8,727	10,353	2,203
Class of 2014	1,322	871	1,889	304
Class of 2015	951	3,485	2,532	1,904
Class of 2016	824	-	0	824
Class of 2017	288	-	0	288
HS drill team	2,707	12,638	14,325	1,020
FFA	201	78,034	50,017	28,218
Construction club	139	-	0	139
Env. science	2,064	-	0	2,064
Hosa	543	3,748	3,881	410

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 5

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Special Olympics	2,441	346	793	1,994
HS mock trial/ACAD	315	2,382	2,347	350
Model UN	838	1,280	1,432	686
National honor society	184	2,430	2,340	274
Outdoor club	1,612	-	1,044	568
P.E. club	8,185	-	0	8,185
Peer helpers	1,342	-	0	1,342
Prom improvement	642	1,198	1,429	411
HS quiz bowl	1,873	350	2,173	50
HS spanish club	2,548	-	993	1,555
HS student senate	1,924	1,722	1,512	2,134
TV. productions	2,521	8,468	8,563	2,426
Weight lifting club	374	-	295	79
HS yearbook	8,060	18,153	17,023	9,190
HS special cross country	423	1,451	1,680	194
HS special swim team	3,883	1,667	1,620	3,930
HS special boys basketball	4,357	2,300	4,242	2,415
HS special football	645	30,020	32,962	(2,297)
HS special baseball	(518)	4,381	4,277	(414)
HS special boys track	96	1,353	362	1,087
HS special boys golf	1,461	1,227	987	1,701
HS special wrestling	527	584	341	770
HS special girls basketball	1,634	3,608	3,245	1,997
HS special volleyball	1,998	6,086	6,406	1,678
HS special softball	1,299	6,133	6,537	895
HS special girls track	590	3,139	3,156	573
HS special girls golf	730	-	294	436
Total	<u>\$ 159,709</u>	<u>436,555</u>	<u>409,059</u>	<u>187,205</u>

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITES
AGENCY FUND
YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 2,772	10,289	10,070	2,991
LIABILITIES				
Due to other groups	\$ 2,772	10,289	10,070	2,991

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 7,985,704	7,731,795	7,579,132	6,968,941	6,592,594	5,497,239	5,469,034	5,614,630	5,742,171	5,725,990
Tuition	1,423,130	1,469,617	1,290,813	1,267,199	1,296,138	1,404,416	1,262,663	1,247,756	1,112,659	886,818
Other	733,805	738,510	817,267	739,104	746,318	771,663	734,547	720,612	649,007	689,877
Intermediate sources	-	-	-	-	-	1,050	1,050	1,050	-	-
State sources	6,652,216	6,439,232	6,161,284	5,157,985	5,913,874	5,632,742	5,375,888	5,447,395	5,285,230	5,335,106
Federal sources	302,441	503,745	535,527	1,341,271	297,727	314,753	370,835	487,067	676,384	427,455
Total	\$ 17,097,296	16,882,899	16,384,023	15,474,500	14,846,651	13,621,863	13,214,017	13,518,510	13,465,451	13,065,246
Expenditures:										
Instruction:										
Regular	\$ 5,868,364	5,574,565	5,207,081	4,823,820	4,831,081	5,263,175	5,608,779	4,965,295	4,920,243	5,123,535
Special	2,941,913	2,907,082	2,875,963	2,912,652	2,825,044	2,758,170	2,519,046	2,531,517	2,610,995	2,538,533
Other	2,038,545	2,180,516	2,354,773	2,191,078	1,888,804	1,776,378	1,376,050	1,591,941	1,526,829	1,344,987
Support services:										
Student	320,425	279,648	292,976	291,112	103,162	335,840	318,336	298,708	294,861	302,558
Instructional staff	456,249	288,856	384,501	249,453	283,131	209,754	221,585	317,399	207,896	283,626
Administration	1,115,629	1,088,775	987,512	995,206	1,026,874	1,214,120	1,106,860	1,167,238	1,092,163	935,202
Operation and maintenance of plant	1,816,259	1,510,389	2,057,503	1,264,561	1,356,167	1,186,106	1,220,355	1,282,805	1,043,524	941,734
Transportation	497,688	490,577	674,073	495,754	437,541	658,449	484,594	605,476	482,887	318,694
Non-instructional programs	-	-	-	-	-	-	-	-	-	17,800
Capital outlay	191,766	22,500	3,614,761	6,211,994	561,541	93,584	459,868	737,059	416,316	576,657
Long-term debt:										
Principal	405,000	795,000	395,000	-	-	-	-	-	-	600,000
Interest and fiscal charges	393,528	622,191	433,227	188,092	-	-	-	-	-	34,740
Other expenditures:										
AEA flowthrough	530,866	520,901	577,797	555,416	492,441	465,680	450,954	434,384	430,727	440,718
Total	\$ 16,576,232	16,281,000	19,855,167	20,179,138	13,805,786	13,961,256	13,766,427	13,931,822	13,026,441	13,458,784

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

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 13	\$ 50,198
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	271,361 *
			<u>321,559</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	<u>142,763</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 13	<u>60,297</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 13	<u>8,788</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 13	<u>79,282</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 13	<u>10,611</u>
IOWA LAKES COMMUNITY COLLEGE:			
COMPREHENSIVE CENTERS (TECH-PREP EDUCATION)	84.243	FY 13	<u>700</u>
TOTAL			<u>\$ 624,000</u>

* -Includes \$51,876 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Algona Community School District and is presented on 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 financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

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

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

We have audited 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, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Algona Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Algona Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-13 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-13 to II-D-13 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona 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

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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, 2013 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.

Algona Community School District's Responses to Findings

Algona Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Algona Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Algona 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.

January 17, 2014
Newton, Iowa

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Independent Auditor's Report on Compliance
for Each Major Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Board of Education of
Algona Community School District

Report on Compliance for Each Major Federal Program

We have audited Algona 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 Algona Community School District's major federal programs for the year ended June 30, 2013. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Algona Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Algona 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 on compliance for each federal program. However, our audit does not provide a legal determination on Algona Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Algona Community School District complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Algona Community School District's internal control over compliance with requirements with the type of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Algona Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-13 to be a material weakness.

Algona Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Algona Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



NOLTE, CORNMAN & JOHNSON, P.C.

January 17, 2014
Newton, Iowa

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

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

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

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash as well as reconciliations.
- 2) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) School lunch program - journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - We have several employees that work on each of these areas, but review our procedures and segregate duties where possible.

Conclusion - Response accepted.

II-B-13 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however we noted instances of purchase orders dated after the supplies had been ordered or received and we also noted transactions processed without purchase orders.

Recommendation - This procedure should be reviewed and necessary changes made so that all disbursements have a pre-numbered purchase order that is approved by the appropriate administrator before the ordering of supplies takes place.

Response - The District is working on training all employees to have pre-approval for any purchase and a signed pre-numbered purchase order before they order supplies.

Conclusion - Response accepted.

II-C-13 Negative Lunch Account Balances - It was noted during the audit that the Nutrition Fund is carrying several significant negative student lunch account balances on the books.

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

Response - The District is working with parents to reduce their negative balances through payment plans.

Conclusion - Response accepted.

II-D-13 Payments to Officials - During our audit we noted what appeared to be instances of checks being made payable to specific athletic officials, which were subsequently endorsed with that payee's name by another individual. These checks were then used to pay the substitute official. The current practice prohibits the Board from approving payment to specific officials and creates an impossible environment for accurate 1099 tax reporting.

Recommendation - The District should review its procedures in place for payments of officials. Pursuant to a valid contractual agreement between the school board and the officials, officials could be paid the night of the event, after services have been rendered. For non-contract officials or substitute officials, payments should be made after services have been rendered and audited and allowed by the Board of Directors similar to other vendor payments.

Response - If an official is not at a game, the check is no longer given to the replacement official, instead the replacement official will be mailed a check as part of the District's normal payment process. The District is working with the athletic director to ensure this is enforced.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2013
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash as well as reconciliations.
- 2) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) School lunch program - journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - We have several employees that work on each of these areas, but review our procedures and segregate duties where possible.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - District disbursements for the year ended June 30, 2013 exceeded the certified amounts in the support services, non-instructional programs, and other expenditures functional areas and in total.

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

Response - Although we amended the budget, we will make sure to amend the budget in the future for an amount that is higher than our disbursements.

Conclusion - Response accepted.

IV-B-13 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees for meals while traveling which lacked a detailed receipt. According to board policy #803.11, employees and officers using a credit card must submit a detailed receipt in addition to a credit card receipt when requesting reimbursement.

Recommendation - The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements as is required by District board policy. If receipts are not available, individuals should be responsible for the expense as stated in the District's board policy.

Response - The District will make sure to get receipts for all purchased made with the District's credit card.

Conclusion - Response accepted.

IV-D-13 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Paul and Theresa DeLange, Bus Drivers Owns Premier Choice	Fundraising items	\$ 38,362
Paul and Theresa DeLange, Bus Drivers Owns Premier Pizza	Pizza/Concession	\$ 7,361
Zoe Fett, Teacher Spouse officiates	Purchased services	\$ 445
Sandi Rodemeyer, Teacher Spouse officiates	Purchased services	\$ 600
Rich Collision, Teacher Son officiates	Purchased services	\$ 60
Jay Limbaugh, Board Member Father owns Jack's OK Tires	Purchased goods	\$ 2,628
Rodney Davis, Board Member Winter sports duty	Purchases services	\$ 628

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Paul and Theresa DeLange do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above Transactions with the son, spouses and father of the District's employees and board members do not appear to represent a conflict of interest.

In accordance with the Chapter 279.7A of the Code of Iowa, the above transaction with board member Rodney Davis does not appear to represent a conflict of interest.

IV-E-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board, however, we did note certain minutes which were not published within two weeks of the meeting as required by Chapter 279.35 by the Code of Iowa.

Recommendation - The board secretary should furnish a copy of the Board proceedings to be published within two weeks of each meeting.

Response - We will make sure to get the minutes published within the two week time period as required by the Code of Iowa.

Conclusion - Response accepted.

IV-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by two students.

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

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

Conclusion - Response accepted.

IV-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-13 Deposits and Investments - 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 were noted

IV-J-13 Certified Annual Report - The Certified Annual Report was filed with the Iowa Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-13 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-13 Financial Condition - At June 30, 2013, the District had a deficit unrestricted net position in the Enterprise: Preschool Fund of \$73,995 and total deficit unrestricted net position in the Enterprise Funds of \$ 26,087. The District had a deficit unassigned fund balance in

the Special Revenue: Student Activity Fund consisting of ten deficit accounts totaling \$15,283. The District also had a deficit unassigned fund balance in the Debt Service Fund of \$721.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficit accounts and fund balances.

Response - We will monitor these accounts to eliminate the deficit accounts and fund balances.

Conclusion - Response accepted.

IV-M-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales and services 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 362,103
Revenues:		
Sales tax revenues	\$ 1,058,229	
Other local revenues	130	1,058,359
	<u> </u>	<u>1,420,462</u>
Expenditures/transfers out:		
Other	\$ 85,685	
Transfers to other funds:		
Debt service fund	798,468	884,153
	<u> </u>	<u> </u>
Ending balance		<u><u>\$ 536,309</u></u>

For the year ended June 30, 2013 the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

IV-N-13 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the board president sign all contracts entered into by the District to comply with Chapter 291.1 of the Code of Iowa.

Response - The board president will sign all contracts entered into by the District in the future.

Conclusion - Response accepted.