

CHEROKEE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Cherokee Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Laura Dawson	President	2015
Jack Creel	Vice President	2015
Deb Johnson	Board Member	2015
Larry Goodrich	Board Member	2013
Terri Weaver	Board Member	2013
School Officials		
Dr. John Chalstrom	Superintendent	2013
Joyce Lundsgaard	District Secretary/Treasurer and Business Manager	2013
Cornwall, Avery, Bjornstad and Scott	Attorney	2013

Cherokee Community School District

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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 Cherokee Community School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Cherokee Community School District, Cherokee, 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, the business type activities, each major fund and the aggregate remaining fund information of Cherokee Community School District as of 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, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the 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 Cherokee Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the third 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 11, 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 basic 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 March 19, 2014 on our consideration of Cherokee Community School District's internal control over financial reporting and on 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 Cherokee Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee 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 \$9,744,391 in fiscal 2012 to \$9,622,306 in fiscal 2013, while General Fund expenditures increased from \$9,369,972 in fiscal 2012 to \$9,639,351 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from \$1,717,378 in fiscal 2012 to a balance of \$1,700,333 in fiscal 2013, a 0.99% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local and federal sources in fiscal 2013. The increase in expenditures was due primarily to increases in expenditures in the instructional and support services functional areas.

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 Cherokee 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 Cherokee 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 Cherokee 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.

Supplementary Information provides detailed information about the nonmajor funds.

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

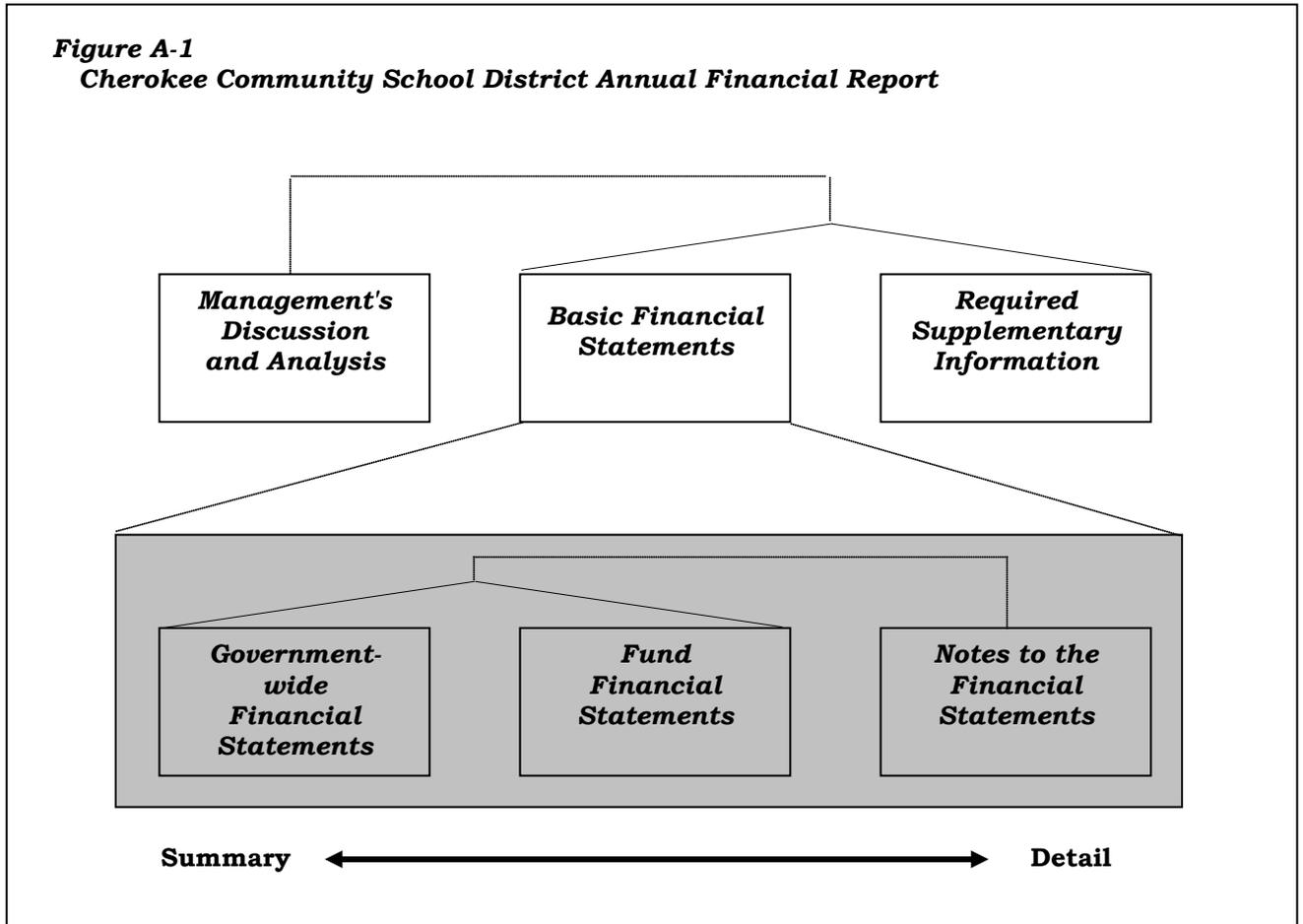


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net 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 are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health, additional non-financial factors, such as changes in the District’s property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net 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 net position at June 30, 2013 compared to June 30, 2012.

Figure A-3
Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 8,281,972	7,661,202	93,142	147,609	8,375,114	7,808,811	7.25%
Capital assets	7,582,662	7,750,320	82,490	32,510	7,665,152	7,782,830	-1.51%
Total assets	15,864,634	15,411,522	175,632	180,119	16,040,266	15,591,641	2.88%
Long-term obligations	2,956,496	3,471,745	4,034	774	2,960,530	3,472,519	-14.74%
Other liabilities	3,810,665	3,642,366	5,673	4,742	3,816,338	3,647,108	4.64%
Total liabilities	6,767,161	7,114,111	9,707	5,516	6,776,868	7,119,627	-4.81%
Net position:							
Invested in capital assets, net of related debt	4,897,662	4,585,320	82,490	32,510	4,980,152	4,617,830	7.85%
Restricted	1,963,487	1,673,264	-	-	1,963,487	1,673,264	17.34%
Unrestricted	2,236,324	2,038,827	83,435	142,093	2,319,759	2,180,920	6.37%
Total net position	\$ 9,097,473	8,297,411	165,925	174,603	9,263,398	8,472,014	9.34%

The District's combined net position increased by 9.34%, or \$791,384, over the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents 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 \$290,223, or 17.34% over the prior year. The increase in restricted net position is mainly attributable to the increase in fund balance for the Capital Projects: Statewide Sales, Services and Use Tax Fund balance.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$138,839, or 6.37%.

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

Figure A-4
Changes of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues & Transfers:							
Program revenues:							
Charges for services	\$ 818,950	804,852	223,850	245,531	1,042,800	1,050,383	-0.72%
Operating grants, contributions and restricted interest	824,971	1,609,495	241,211	237,611	1,066,182	1,847,106	-42.28%
Capital grants, contributions and restricted interest	-	15,500	-	-	-	15,500	-100.00%
General revenues:							
Property taxes	3,473,697	3,582,441	-	-	3,473,697	3,582,441	-3.04%
Income surtax	267,313	271,060	-	-	267,313	271,060	-1.38%
Statewide sales, services and use tax	795,305	682,977	-	-	795,305	682,977	16.45%
Unrestricted state grants	5,029,978	4,176,804	-	-	5,029,978	4,176,804	20.43%
Unrestricted investment earnings	12,874	10,238	42	100	12,916	10,338	24.94%
Other	148,199	67,926	1,588	-	149,787	67,926	120.51%
Transfers	9,516	-	-	-	9,516	-	100.00%
Total revenues & transfers	11,380,803	11,221,293	466,691	483,242	11,847,494	11,704,535	1.22%
Program expenses:							
Governmental activities:							
Instructional	6,844,844	6,622,114	-	-	6,844,844	6,622,114	3.36%
Support services	2,986,410	2,769,492	67,367	-	3,053,777	2,769,492	10.26%
Non-instructional programs	-	-	408,002	474,895	408,002	474,895	-14.09%
Long-term debt interest	112,810	129,712	-	-	112,810	129,712	-13.03%
Other expenses	636,677	789,501	-	-	636,677	789,501	-19.36%
Total expenses	10,580,741	10,310,819	475,369	474,895	11,056,110	10,785,714	2.51%
Change in net position	800,062	910,474	(8,678)	8,347	791,384	918,821	-13.87%
Net position beginning of year	8,297,411	7,386,937	174,603	166,256	8,472,014	7,553,193	12.16%
Net position end of year	\$ 9,097,473	8,297,411	165,925	174,603	9,263,398	8,472,014	9.34%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 84.06% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.65% of the revenue from business type activities.

The District's total revenues were approximately \$11.85 million of which approximately \$11.38 million was for governmental activities and approximately \$0.47 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.22% increase in revenues and a 2.51% increase in expenses. The increase in total District revenues can be attributed to the increase in statewide sales, services and use tax and unrestricted state grant revenues received by the District as compared to the previous year. The increase in total District expenses related to an increase in the instructional and support services functional areas.

Governmental Activities

Revenues for governmental activities were \$11,380,803 and expenses were \$10,580,741.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, long-term debt interest and other expenses, for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 6,844,844	6,622,114	3.36%	5,570,265	4,587,521	21.42%
Support services	2,986,410	2,769,492	7.83%	2,986,410	2,757,543	8.30%
Long-term debt interest	112,810	129,712	-13.03%	112,810	129,712	-13.03%
Other expenses	636,677	789,501	-19.36%	267,335	406,196	-34.19%
Totals	\$ 10,580,741	10,310,819	2.62%	8,936,820	7,880,972	13.40%

- The cost financed by users of the District's programs was \$818,950.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$824,971.
- The net cost of governmental activities was financed with \$3,473,697 in property tax, \$267,313 in income surtax, \$795,305 in statewide sales, services and use tax, \$5,029,978 in unrestricted state grants, \$12,874 in unrestricted investment earnings and \$157,715 in other general revenues and transfers.

Business Type Activities

Revenues of the District's business type activities were \$466,691 and expenses were \$475,369. The District's business type activities include the School Nutrition 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 Cherokee 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 \$3,613,022, above last year's ending fund balances of \$3,303,406. The primary reason for the increase in combined fund balances in fiscal 2013 is due to the increase in fund balances of the Management Levy Fund and the Student Activity Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. A reduction during the year in tax receipts and federal grants resulted in the decrease in General Fund revenues as compared to the previous year. The decrease in revenues coupled with the increase in expenditures required the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$1,717,378 to \$1,700,333, due in part, to negotiated salaries and benefits received by District employees and existing expenditure commitments to the District.

- The Capital Projects Accounts balance increased from \$1,418,527 in fiscal 2012 to \$1,560,942 in fiscal 2013. The increase in balance can be attributed in part to the increase in sales tax revenues received by the District as compared to the prior year.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$174,603 at June 30, 2012 to \$165,925 at June 30, 2013, representing a decrease of 4.97%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$80,945 more than budgeted revenues, a variance of 0.69%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$7,665,152, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$462,999.

The original cost of the District's capital assets was \$16,620,318. Governmental funds account for \$16,392,217 with the remainder of \$228,101 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 \$379,805 at June 30, 2013, compared to \$431,439 reported at June 30, 2012. The decrease in land improvements can be attributed to depreciation expense taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 709,934	709,934	-	-	709,934	709,934	0.00%
Buildings and improvements	5,907,222	5,966,687	-	-	5,907,222	5,966,687	-1.00%
Land improvements	379,805	431,439	-	-	379,805	431,439	-11.97%
Machinery and equipment	585,701	642,260	82,490	32,510	668,191	674,770	-0.97%
Total	\$ 7,582,662	7,750,320	82,490	32,510	7,665,152	7,782,830	-1.51%

Long-Term Debt

At June 30, 2013, the District had \$2,960,530 in general obligation and other long-term debt outstanding. This represents a decrease of 14.74% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonded indebtedness of \$2,685,000 at June 30, 2013.

The District had total termination benefits payable of \$155,829 at June 30, 2013.

The District had total outstanding other postemployment benefits payable of \$119,701 at June 30, 2013.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
General obligation bonds	\$ 2,685,000	3,165,000	-	-	2,685,000	3,165,000	-15.17%
Termination benefits	155,829	264,139	-	-	155,829	264,139	-41.00%
Net OPEB liability	115,667	42,606	4,034	774	119,701	43,380	175.94%
Totals	\$ 2,956,496	3,471,745	4,034	774	2,960,530	3,472,519	-14.74%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The SILO tax was passed in February 2004, and money was received by the District beginning in September 2004. This was replaced in 2008 by the statewide sales, services and use tax. These funds are used for debt reduction resulting in property tax relief for the taxpayers. The District passed the Revenue Purpose Statement in December 2012 which will allow the district to receive SAVE dollars until 2029.
- A challenge for the District will be to find avenues to finance a technology infrastructure in the future that will support 21st century skills which are a vital component of the Iowa Core/Common Core Curriculum. The district is currently discussing the implementation of a 1:1 laptop initiative.
- School financing is highly dependent upon student enrollment and adequate allowable growth. The District continues to see a slight growth in enrollment but needs to receive adequate allowable growth in order to address inflationary costs.
- The District continues to evaluate the condition of its transportation vehicles and the need to upgrade the transportation fleet due to mileage on buses, other vehicles and the hot lunch van. To pay for these vehicles, the District will need to use a combination of resources from the General Fund, Physical Plant and Equipment Levy Fund and the Nutrition Fund.

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 Joyce Lundsgaard, District Secretary/Treasurer and Business Manager, Cherokee Community School District, 600 West Bluff St., Cherokee, Iowa, 51012.

Cherokee Community School District

BASIC FINANCIAL STATEMENTS

CHEROKEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,962,367	68,187	4,030,554
Receivables:			
Property tax:			
Delinquent	39,425	-	39,425
Succeeding year	3,623,823	-	3,623,823
Income surtax	258,745	-	258,745
Accounts	3,610	8,989	12,599
Accrued interest	2,559	-	2,559
Due from other governments	391,443	-	391,443
Inventories	-	15,966	15,966
Capital assets, net of accumulated depreciation	7,582,662	82,490	7,665,152
TOTAL ASSETS	15,864,634	175,632	16,040,266
LIABILITIES			
Accounts payable	152,617	-	152,617
Salaries and benefits payable	17,790	-	17,790
Interest payable	16,435	-	16,435
Deferred revenue:			
Succeeding year property tax	3,623,823	-	3,623,823
Unearned revenue	-	5,673	5,673
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	495,000	-	495,000
Termination benefits payable	45,039	-	45,039
Portion due after one year:			
General obligation bonds payable	2,190,000	-	2,190,000
Termination benefits payable	110,790	-	110,790
Net OPEB liability	115,667	4,034	119,701
TOTAL LIABILITIES	6,767,161	9,707	6,776,868
NET POSITION			
Invested in capital assets, net of related debt	4,897,662	82,490	4,980,152
Restricted for:			
Categorical funding	206,627	-	206,627
Management levy purposes	115,530	-	115,530
Student activities	76,357	-	76,357
Support trust purposes	4,031	-	4,031
School infrastructure	1,373,934	-	1,373,934
Physical plant and equipment	187,008	-	187,008
Unrestricted	2,236,324	83,435	2,323,790
TOTAL NET POSITION	\$ 9,097,473	165,925	9,263,398

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 4,071,260	481,814	91,673	(3,497,773)	-	(3,497,773)
Special	1,496,715	111,027	48,862	(1,336,826)	-	(1,336,826)
Other	1,276,869	226,109	315,094	(735,666)	-	(735,666)
	<u>6,844,844</u>	<u>818,950</u>	<u>455,629</u>	<u>(5,570,265)</u>	<u>-</u>	<u>(5,570,265)</u>
Support services:						
Student	214,134	-	-	(214,134)	-	(214,134)
Instructional staff	248,501	-	-	(248,501)	-	(248,501)
Administration	1,271,519	-	-	(1,271,519)	-	(1,271,519)
Operation and maintenance of plant	844,899	-	-	(844,899)	-	(844,899)
Transportation	407,357	-	-	(407,357)	-	(407,357)
	<u>2,986,410</u>	<u>-</u>	<u>-</u>	<u>(2,986,410)</u>	<u>-</u>	<u>(2,986,410)</u>
Long-term debt interest	112,810	-	-	(112,810)	-	(112,810)
Other expenses:						
AEA flowthrough	369,342	-	369,342	-	-	-
Depreciation(unallocated)*	267,335	-	-	(267,335)	-	(267,335)
	<u>636,677</u>	<u>-</u>	<u>369,342</u>	<u>(380,145)</u>	<u>-</u>	<u>(380,145)</u>
Total governmental activities	10,580,741	818,950	824,971	(8,936,820)	-	(8,936,820)
Business type activities:						
Support services:						
Administration	1,570	-	-	-	(1,570)	(1,570)
Operation and maintenance of plant	65,797	-	-	-	(65,797)	(65,797)
	<u>67,367</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,367)</u>	<u>(67,367)</u>
Non-instructional programs:						
Food service operations	408,002	223,850	241,211	-	57,059	57,059
	<u>475,369</u>	<u>223,850</u>	<u>241,211</u>	<u>-</u>	<u>(10,308)</u>	<u>(10,308)</u>
Total	<u>\$ 11,056,110</u>	<u>1,042,800</u>	<u>1,066,182</u>	<u>(8,936,820)</u>	<u>(10,308)</u>	<u>(8,947,128)</u>
General Revenues & Transfers:						
Property tax levied for:						
General purposes				\$ 3,193,002	-	3,193,002
Capital outlay				280,695	-	280,695
Income surtax				267,313	-	267,313
Statewide sales, services and use tax				795,305	-	795,305
Unrestricted state grants				5,029,978	-	5,029,978
Unrestricted investment earnings				12,874	42	12,916
Other				148,199	1,588	149,787
Transfers				9,516	-	9,516
				<u>9,736,882</u>	<u>1,630</u>	<u>9,738,512</u>
Total general revenues and transfers				9,736,882	1,630	9,738,512
Changes in net position				800,062	(8,678)	791,384
Net position beginning of year				8,297,411	174,603	8,472,014
Net position end of year				<u>\$ 9,097,473</u>	<u>165,925</u>	<u>9,263,398</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 1,580,707	1,418,519	347,654	3,346,880
Receivables:				
Property tax:				
Delinquent	31,468	3,153	4,804	39,425
Succeeding year	2,924,858	298,965	400,000	3,623,823
Income surtax	258,745	-	-	258,745
Accounts	3,273	-	337	3,610
Accrued interest	847	1,224	-	2,071
Due from other funds	-	12,682	-	12,682
Due from other governments	266,079	125,364	-	391,443
TOTAL ASSETS	\$ 5,065,977	1,859,907	752,795	7,678,679
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 12,682	-	-	12,682
Accounts payable	151,569	-	1,048	152,617
Salaries and benefits payable	17,790	-	-	17,790
Deferred revenue:				
Succeeding year property tax	2,924,858	298,965	400,000	3,623,823
Income surtax	258,745	-	-	258,745
Total liabilities	3,365,644	298,965	401,048	4,065,657
Fund balances:				
Restricted for:				
Categorical funding	206,627	-	-	206,627
Management levy purposes	-	-	271,359	271,359
Student activities	-	-	76,357	76,357
Support trust purposes	-	-	4,031	4,031
School infrastructure	-	1,373,934	-	1,373,934
Physical plant and equipment	-	187,008	-	187,008
Unassigned	1,493,706	-	-	1,493,706
Total fund balances	1,700,333	1,560,942	351,747	3,613,022
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,065,977	1,859,907	752,795	7,678,679

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE 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)	\$ 3,613,022
<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 report as assets in in the governmental funds.	7,582,662
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(16,435)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	258,745
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	615,975
Long-term liabilities, including general obligation bonds payable, termination benefits payable and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,956,496)</u>
Net position of governmental activities(page 18)	<u><u>\$ 9,097,473</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,029,948	1,076,000	422,914	4,528,862
Tuition	557,902	-	-	557,902
Other	226,439	7,105	235,509	469,053
State sources	5,556,128	-	-	5,556,128
Federal sources	251,889	-	-	251,889
Total revenues	<u>9,622,306</u>	<u>1,083,105</u>	<u>658,423</u>	<u>11,363,834</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,923,011	-	197,151	4,120,162
Special	1,509,673	-	-	1,509,673
Other	1,057,741	-	217,323	1,275,064
	<u>6,490,425</u>	<u>-</u>	<u>414,474</u>	<u>6,904,899</u>
Support services:				
Student	215,489	-	-	215,489
Instructional staff	250,374	-	-	250,374
Administration	1,265,142	-	7,012	1,272,154
Operation and maintenance of plant	701,493	-	50,593	752,086
Transportation	347,086	103,215	12,114	462,415
	<u>2,779,584</u>	<u>103,215</u>	<u>69,719</u>	<u>2,952,518</u>
Capital outlay	-	244,425	-	244,425
Long-term debt:				
Principal	-	-	480,000	480,000
Interest and fiscal charges	-	-	115,650	115,650
	<u>-</u>	<u>-</u>	<u>595,650</u>	<u>595,650</u>
Other expenditures:				
AEA flowthrough	369,342	-	-	369,342
Total expenditures	<u>9,639,351</u>	<u>347,640</u>	<u>1,079,843</u>	<u>11,066,834</u>
Excess(Deficiency) of revenues over(under) expenditures	(17,045)	735,465	(421,420)	297,000
Other financing sources(uses):				
Transfer in	-	-	605,666	605,666
Transfer out	-	(596,150)	-	(596,150)
Sale of equipment	-	3,100	-	3,100
Total other financing sources(uses)	<u>-</u>	<u>(593,050)</u>	<u>605,666</u>	<u>12,616</u>
Change in fund balances	(17,045)	142,415	184,246	309,616
Fund balances beginning of year	<u>1,717,378</u>	<u>1,418,527</u>	<u>167,501</u>	<u>3,303,406</u>
Fund balances end of year	<u>\$ 1,700,333</u>	<u>1,560,942</u>	<u>351,747</u>	<u>3,613,022</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE 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

Change in fund balances - total governmental funds(page 22)	\$	309,616
 <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. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$ 294,893	
Depreciation expense	(454,361)	
Loss on asset disposal	<u>(8,190)</u>	(167,658)
 Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
		480,000
 Net change in Internal Service Funds charged back against expenditures made for the self-funded insurance at an entity-wide basis.		
		132,562
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		2,840
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		7,453
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Termination benefits	\$ 108,310	
Other postemployment benefits	<u>(73,061)</u>	<u>35,249</u>
 Change in net position of governmental activities(page 19)	 \$	 <u><u>800,062</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Funds
ASSETS		
Current assets:		
Cash and pooled investments	\$ 68,187	615,487
Receivables:		
Accounts	8,989	-
Accrued interest	-	488
Inventories	15,966	-
Total current assets	<u>93,142</u>	<u>615,975</u>
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	82,490	-
TOTAL ASSETS	<u>175,632</u>	<u>615,975</u>
LIABILITIES		
Current liabilities:		
Unearned revenue	5,673	-
Long-term liabilities:		
Net OPEB liability	4,034	-
TOTAL LIABILITIES	<u>9,707</u>	<u>-</u>
NET POSITION		
Invested in capital assets	82,490	-
Unrestricted	83,435	615,975
TOTAL NET POSITION	<u>\$ 165,925</u>	<u>615,975</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Funds
	School Nutrition	
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 223,850	-
Miscellaneous	1,588	430,615
TOTAL OPERATING REVENUES	<u>225,438</u>	<u>430,615</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Services	1,405	300,428
Other	165	-
	<u>1,570</u>	<u>300,428</u>
Operation and maintenance of plant:		
Services	65,797	-
Total support services	<u>67,367</u>	<u>300,428</u>
Non-instructional programs:		
Food service operations:		
Salaries	154,504	-
Benefits	68,823	-
Supplies	176,037	-
Depreciation	8,638	-
Total non-instructional programs	<u>408,002</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>475,369</u>	<u>300,428</u>
OPERATING INCOME(LOSS)	<u>(249,931)</u>	<u>130,187</u>
NON-OPERATING REVENUES:		
State sources	4,057	-
Federal sources	237,154	-
Interest income	42	2,375
TOTAL NON-OPERATING REVENUES	<u>241,253</u>	<u>2,375</u>
Change in net position	(8,678)	132,562
Net position beginning of year	<u>174,603</u>	<u>483,413</u>
Net position end of year	<u>\$ 165,925</u>	<u>615,975</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service
	School Nutrition	
Cash flows from operating activities:		
Cash received from operating activities	\$ 222,849	-
Cash received from miscellaneous operating activities	1,588	430,127
Cash payments to employees for services	(220,067)	(116,667)
Cash payments to suppliers for goods or services	(211,656)	(183,761)
Net cash provided by(used in) operating activities	<u>(207,286)</u>	<u>129,699</u>
Cash flows from non-capital financing activities:		
State grants received	4,057	-
Federal grants received	214,644	-
Net cash provided by non-capital financing activities	<u>218,701</u>	<u>-</u>
Cash flows from capital activities:		
Acquisition of assets	(58,618)	-
Cash flows from investing activities:		
Interest on investment	42	2,375
Net increase(decrease) in cash and cash equivalents	(47,161)	132,074
Cash and cash equivalents at beginning of year	115,348	483,413
Cash and cash equivalents at end of year	<u>\$ 68,187</u>	<u>615,487</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (249,931)	130,187
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	25,201	-
Depreciation	8,638	-
Decrease in inventories	6,547	-
Increase in accounts receivable	(1,932)	(488)
Increase in unearned revenue	931	-
Increase in other postemployment benefits	3,260	-
Net cash provided by(used in) operating activities	<u>\$ (207,286)</u>	<u>129,699</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$25,201.

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	<u>Private Purpose Trust</u>
	<u>Scholarship Fund</u>
ASSETS	
Cash and pooled investments	\$ 24,048
LIABILITIES	<u>-</u>
NET ASSETS	
Restricted for scholarships	<u>\$ 24,048</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Scholarship Fund</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 4,626
Interest	2,738
Total additions	<u>7,364</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>9,303</u>
Change in net position before other financing uses	(1,939)
Other financing uses:	
Transfer out	<u>(9,516)</u>
Change in net position	(11,455)
Net position beginning of year	<u>35,503</u>
Net position end of year	<u>\$ 24,048</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHEROKEE COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

The Cherokee Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Cherokee and Larrabee, Iowa, and the predominantly agricultural territory in Cherokee 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, Cherokee Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Cherokee Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cherokee Counties 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 nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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 three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation plus unspent bond proceeds and reduced by outstanding principal balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those 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 that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or

directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

The District reports a nonmajor Support Trust Fund which is funded to provide additional support for classes provided in the District.

The District also reports one nonmajor proprietary fund:

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

The District also reports one other proprietary fund:

The Internal Service Fund is used to account for the self-funded health insurance and flex benefits operations of 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 Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 - committed, assigned and then unassigned fund balances.

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

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

D. Assets, Liabilities and Fund Balances

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

Cash, Pooled Investments and Cash Equivalents - The cash 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 purpose 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 Taxes - Property tax 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. Current year 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 amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

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

Capital Assets - Capital assets, which include property, machinery and 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	\$ 2,000
Buildings and improvements	10,000
Land improvements	10,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings and improvements	50 years
Land improvements	20-50 years
Intangibles	5-10 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2013, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2013.

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, succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

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.

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

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

Unassigned - All amounts not included in other spendable classifications.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2. Deposits 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 \$26,310 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor’s Financial Services.

Investments in common stock and mutual funds are stated at the approximate fair value based on the closing price for the stock on June 30, 2013. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. At June 30, 2013, the District’s investment in common stock and mutual funds that were donated to the District for scholarship awards to students consisted of the following:

Stock/Mutual Fund	Number of Shares	Fair Value
Sempra Energy	200	\$ 16,352
Franklin Income Fund Class A	745	1,689
Total		<u>\$ 18,041</u>

Note 3. Transfers

The detail of 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	\$ 596,150
Support Trust	Private Purpose Trust	9,516
Total		<u>\$ 605,666</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for general obligation principal and interest payments.

The transfer from the Private Purpose Trust to the Thomas Trust was needed to move moneys more appropriately accounted for in a Special Revenue: Support Trust Fund.

Note 4. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
Capital Projects:		
Physical Plant and Equipment Levy	General	\$ 12,682

The General Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for transactions recorded in the improper funds (See Comment II-N-13).

Note 5. 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
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 709,934	-	-	709,934
Total capital assets not being depreciated	709,934	-	-	709,934
Capital assets being depreciated:				
Buildings and improvements	10,535,180	155,962	-	10,691,142
Land improvements	1,689,586	-	-	1,689,586
Machinery and equipment	3,278,849	138,931	116,225	3,301,555
Total capital assets being depreciated	15,503,615	294,893	116,225	15,682,283
Less accumulated depreciation for:				
Buildings and improvements	4,568,493	215,427	-	4,783,920
Land improvements	1,258,147	51,634	-	1,309,781
Machinery and equipment	2,636,589	187,300	108,035	2,715,854
Total accumulated depreciation	8,463,229	454,361	108,035	8,809,555
Total capital assets being depreciated, net	7,040,386	(159,468)	8,190	6,872,728
Governmental activities capital assets, net	\$ 7,750,320	(159,468)	8,190	7,582,662
Business type activities:				
Machinery and equipment	\$ 169,483	58,618	-	228,101
Less accumulated depreciation	136,973	8,638	-	145,611
Business type activities capital assets, net	\$ 32,510	49,980	-	82,490

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 90,135
Other	27,570

Support services:

Administration	13,453
Operation and maintenance of plant	10,193
Transportation	45,675

187,026

Unallocated depreciation

267,335

Total governmental activities depreciation expense

\$ 454,361

Business type activities:

Food service operations	<u><u>\$ 8,638</u></u>
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Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
General obligation bonds	\$ 3,165,000	-	480,000	2,685,000	495,000
Termination benefits	264,139	-	108,310	155,829	45,039
Net OPEB liability	42,606	73,061	-	115,667	-
Total	<u>\$ 3,471,745</u>	<u>73,061</u>	<u>588,310</u>	<u>2,956,496</u>	<u>540,039</u>
<u>Business Type Activities:</u>					
Net OPEB liability	<u>\$ 774</u>	<u>3,260</u>	<u>-</u>	<u>4,034</u>	<u>-</u>

General Obligation Bonds Payable

Details of the District's June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of November 1, 2007			
	Interest Rate	Principal	Interest	Total
2014	3.60 %	\$ 495,000	98,610	593,610
2015	3.65	520,000	80,790	600,790
2016	3.65	535,000	61,810	596,810
2017	3.70	560,000	42,283	602,283
2018	3.75	575,000	21,562	596,562
Total		<u>\$ 2,685,000</u>	<u>305,055</u>	<u>2,990,055</u>

Termination Benefits

The District offered a voluntary early retirement plan for employees through June 30, 2010. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement started.

Early retirement benefits consisted of a cash benefit not to exceed \$20,000 and single coverage health insurance premium of up to \$3,945 per year until age 65. Payments will continue through fiscal year 2020.

At June 30, 2013, the District has obligations to fourteen participants with a total liability of \$155,829. Two participants withdrew from the plan during the year ended June 30, 2013 therefore reducing the liability by \$45,691. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$62,619.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 127 active and 19 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	\$ 169,951
Interest on net OPEB obligation	1,085
Adjustment to annual required contribution	(6,143)
Annual OPEB cost (expense)	<u>164,893</u>
Contributions made	<u>(88,572)</u>
Increase in net OPEB obligation	76,321
Net OPEB obligation - beginning of year	<u>43,380</u>
Net OPEB obligation - end of year	<u>\$ 119,701</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

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 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 118,180	89.7 %	\$ 22,639
2012	116,257	82.2	43,380
2013	164,893	53.7	119,701

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$870,315, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$870,315. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5,566,045 and the ratio of the UAAL to covered payroll was 15.6%. 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, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include 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 94 Group Annuity Mortality Table projected to 2000, applied on a gender-specific basis. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. 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. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$502,736, \$462,748, and \$395,680 respectively, equal to the required contributions for each year.

Note 9. Risk Management

Cherokee 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 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$369,342 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 11. Operating Lease Commitment

The District entered into a five year contract to lease copiers during fiscal year 2012. The District will make annual lease payments of \$31,968 through fiscal year 2016 for the copiers.

Note 12. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
Empowerment professional development	\$ 1,209
Gifted and talented	6,963
Professional development	12,510
Teacher salary supplement	5,324
Market factor incentives	7,551
Professional development model core curriculum	49,233
Market factor	7,892
Four-year-old preschool state aid	115,945
Total restricted for cateforical funding	<u>\$ 206,627</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON 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	Fund Actual		Original	Final	
Revenues:						
Local sources	\$ 5,555,817	225,480	5,781,297	5,534,396	5,534,396	246,901
Intermediate sources	-	-	-	6,000	6,000	(6,000)
State sources	5,556,128	4,057	5,560,185	5,689,184	5,689,184	(128,999)
Federal sources	251,889	237,154	489,043	520,000	520,000	(30,957)
Total revenues	<u>11,363,834</u>	<u>466,691</u>	<u>11,830,525</u>	<u>11,749,580</u>	<u>11,749,580</u>	<u>80,945</u>
Expenditures/expenses:						
Instruction	6,904,899	-	6,904,899	7,475,704	7,475,704	570,805
Support services	2,952,518	67,367	3,019,885	3,425,000	3,425,000	405,115
Non-instructional programs	-	408,002	408,002	605,086	605,086	197,084
Other expenditures	1,209,417	-	1,209,417	1,549,256	1,549,256	339,839
Total expenditures/expenses	<u>11,066,834</u>	<u>475,369</u>	<u>11,542,203</u>	<u>13,055,046</u>	<u>13,055,046</u>	<u>1,512,843</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	297,000	(8,678)	288,322	(1,305,466)	(1,305,466)	1,593,788
Other financing sources, net	12,616	-	12,616	-	-	12,616
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	309,616	(8,678)	300,938	(1,305,466)	(1,305,466)	1,606,404
Balances beginning of year	<u>3,303,406</u>	<u>174,603</u>	<u>3,478,009</u>	<u>2,200,509</u>	<u>2,200,509</u>	<u>1,277,500</u>
Balances end of year	<u>\$ 3,613,022</u>	<u>165,925</u>	<u>3,778,947</u>	<u>895,043</u>	<u>895,043</u>	<u>2,883,904</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE 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

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

CHEROKEE 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)
2010	July 1, 2009	\$ -	\$1,141,481	\$1,141,481	0.0%	\$ 5,956,000	19.2%
2011	July 1, 2009	\$ -	\$1,054,573	\$1,054,573	0.0%	\$ 6,081,000	17.3%
2012	July 1, 2009	\$ -	\$1,001,178	\$1,001,178	0.0%	\$ 5,552,000	18.0%
2013	July 1, 2012	\$ -	\$ 870,315	\$ 870,315	0.0%	\$ 5,566,045	15.6%

See Note 7 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.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue			Total
	Management Levy	Student Activity	Support Trust	
ASSETS				
Cash and pooled investments	\$ 266,555	77,068	4,031	347,654
Receivables:				
Property tax:				
Delinquent	4,804	-	-	4,804
Succeeding year	400,000	-	-	400,000
Accounts	-	337	-	337
TOTAL ASSETS	\$ 671,359	77,405	4,031	752,795
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	1,048	-	1,048
Deferred revenue:				
Succeeding year property tax	400,000	-	-	400,000
Total liabilities	400,000	1,048	-	401,048
Fund balances:				
Restricted for:				
Management levy purposes	271,359	-	-	271,359
Student activities	-	76,357	-	76,357
Support trust purposes	-	-	4,031	4,031
Total fund balances	271,359	76,357	4,031	351,747
TOTAL LIABILITIES AND FUND BALANCE	\$ 671,359	77,405	4,031	752,795

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue			Total	Debt Service	Total
	Management Levy	Student Activity	Support Trust			
REVENUES:						
Local sources:						
Local tax	\$ 422,914	-	-	422,914	-	422,914
Other	6,418	224,742	4,349	235,509	-	235,509
Total revenues	429,332	224,742	4,349	658,423	-	658,423
EXPENDITURES:						
Current:						
Instruction:						
Regular	187,317	-	9,834	197,151	-	197,151
Other	-	217,323	-	217,323	-	217,323
Support services:						
Administration	6,512	-	-	6,512	500	7,012
Operation and maintenance of plant	50,593	-	-	50,593	-	50,593
Transportation	12,114	-	-	12,114	-	12,114
Long-term debt:						
Principal	-	-	-	-	480,000	480,000
Interest and fiscal charges	-	-	-	-	115,650	115,650
Total expenditures	256,536	217,323	9,834	483,693	596,150	1,079,843
Excess(Deficiency) of revenues over(under) expenditures	172,796	7,419	(5,485)	174,730	(596,150)	(421,420)
Other financing sources:						
Transfer in	-	-	9,516	9,516	596,150	605,666
Change in fund balances	172,796	7,419	4,031	184,246	-	184,246
Fund balances beginning of year	98,563	68,938	-	167,501	-	167,501
Fund balances end of year	\$ 271,359	76,357	4,031	351,747	-	351,747

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 1,247,346	171,173	1,418,519
Receivables:			
Property tax:			
Delinquent	-	3,153	3,153
Succeeding year	-	298,965	298,965
Accrued interest	1,224	-	1,224
Due from other funds	-	12,682	12,682
Due from other governments	125,364	-	125,364
TOTAL ASSETS	\$ 1,373,934	485,973	1,859,907
LIABILITIES AND FUND BALANCES			
Liabilities:			
Succeeding year property tax	\$ -	298,965	298,965
Fund balances:			
Restricted for:			
School infrastructure	1,373,934	-	1,373,934
Physical plant and equipment levy	-	187,008	187,008
Total fund balances	1,373,934	187,008	1,560,942
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,373,934	485,973	1,859,907

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 795,305	280,695	1,076,000
Other	6,300	805	7,105
Total revenues	<u>801,605</u>	<u>281,500</u>	<u>1,083,105</u>
EXPENDITURES:			
Current:			
Support services:			
Transportation	-	103,215	103,215
Capital outlay	-	244,425	244,425
Total expenditures	<u>-</u>	<u>347,640</u>	<u>347,640</u>
Excess(Deficiency)of revenues over(under) expenditures	801,605	(66,140)	735,465
Other financing sources(uses):			
Transfer out	(596,150)	-	(596,150)
Sale of equipment	-	3,100	3,100
Total other financing sources(uses)	<u>(596,150)</u>	<u>3,100</u>	<u>(593,050)</u>
Change in fund balances	205,455	(63,040)	142,415
Fund balance beginning of year	<u>1,168,479</u>	<u>250,048</u>	<u>1,418,527</u>
Fund balance end of year	<u>\$ 1,373,934</u>	<u>187,008</u>	<u>1,560,942</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE 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	Intra- Fund Transfers	Balance End of Year
Drama	\$ 491	-	-	-	491
Speech	-	5,085	5,009	-	76
Music	-	-	1,317	1,317	-
WHS vocal fundraising	10,080	15,538	9,829	-	15,789
WHS band	-	1,770	3,887	2,117	-
Cross country	42	892	826	-	108
WHS cheerleaders	3,374	3,290	3,264	-	3,400
Weightlifting	600	-	-	-	600
Boys basketball	-	-	3,948	3,948	-
Boys basketball fundraiser	874	1,975	1,985	-	864
Football	-	-	4,031	4,031	-
Football fundraiser	11,567	30,557	29,849	-	12,275
Baseball	-	-	4,492	4,492	-
Baseball fundraiser	3,062	4,380	3,822	-	3,620
Boys track	-	240	2,365	2,125	-
Bowling	-	630	674	44	-
Boys tennis	-	-	438	438	-
Boys golf	-	490	2,453	1,963	-
Wrestling	-	430	1,913	1,483	-
Wrestling fundraiser	1,814	9,436	7,648	-	3,602
Girls basketball	-	3	2,516	2,513	-
Girls basketball fundraiser	3,042	825	2,304	-	1,563
Volleyball	-	643	4,236	3,593	-
Volleyball fundraiser	4,787	650	2,412	-	3,025
Girls softball	-	-	3,213	3,384	171
Softball fundraiser	649	8,883	7,306	-	2,226
Girls track	258	2,458	4,043	1,643	316
Girls tennis	-	309	485	176	-
Girls golf	-	1,163	2,120	957	-
Cherokean	1,254	10,326	11,043	-	537
National honor society	426	670	236	-	860
Drug free lifestyles	2,188	-	168	-	2,020
Art club	876	-	-	-	876
Student council	7,627	4,598	5,202	-	7,023
Concessions	619	14,468	13,556	-	1,531
FCCLA	1,021	432	755	-	698
German club	1,188	-	-	(1,075)	113
Spanish club	541	2,329	801	-	2,069
Culinary arts	2,876	1,183	2,110	-	1,949
Special athletes	-	-	107	107	-
School to work	33	-	-	-	33
WHS work study	2,188	-	69	-	2,119
Class of 2014	385	338	84	-	639
Class of 2015	137	300	-	-	437
Class of 2012	-	300	125	-	175
Class of 2013	776	300	442	(634)	-
Prom	189	11,648	10,882	-	955
Interest on investments	292	158	-	(450)	-
WHS athletics	-	11,665	18,894	7,229	-
WHS activities - ticket sales	-	70,440	24,159	(46,048)	233
WHS athletic pop & juice	463	-	-	(463)	-
WHS safety glasses and padlocks	410	-	-	-	410
Stoneking class	1,757	244	107	-	1,894
Library club	20	-	-	-	20
7th/8th student council	2,289	5,101	3,837	-	3,553
5th/6th student council	292	-	205	-	87
CMS athletics	-	200	6,403	6,203	-
Middle school volleyball	286	-	-	(286)	-
CMS band	-	379	1,121	742	-
CMS vocal	-	16	632	616	-
CMS hoops festival	165	-	-	(165)	-
TOTAL	\$ 68,938	224,742	217,323	-	76,357

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 JUNE 30, 2013

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Insurance	Flex Benefits	Total
ASSETS			
Cash and pooled investments	\$ 607,741	7,746	615,487
Interest receivable	488	-	488
TOTAL ASSETS	608,229	7,746	615,975
LIABILITIES	-	-	-
NET POSITION			
Unrestricted	\$ 608,229	7,746	615,975

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2013

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Insurance	Flex Benefits	Total
OPERATING REVENUE:			
Local sources:			
Miscellaneous	\$ 306,202	124,413	430,615
OPERATING EXPENSES:			
Support services:			
Administration:			
Services	183,761	116,667	300,428
OPERATING INCOME	122,441	7,746	130,187
NON-OPERATING REVENUE			
Interest income	2,375	-	2,375
Change in net position	124,816	7,746	132,562
Net position beginning of year	483,413	-	483,413
Net position end of year	\$ 608,229	7,746	615,975

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2013

	Governmental Activities:		
	Internal Service Funds		
	Self-funded Insurance	Flex Benefits	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 305,714	124,413	430,127
Cash payments to employees for services	-	(116,667)	(116,667)
Cash payments to suppliers for goods or services	(183,761)	-	(183,761)
Net cash provided by operating activities	121,953	7,746	129,699
Cash flows from investing activities:			
Interest on investments	2,375	-	2,375
Net increase in cash and cash equivalents	124,328	7,746	132,074
Cash and cash equivalents beginning of year	483,413	-	483,413
Cash and cash equivalents end of year	\$ 607,741	7,746	615,487
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 122,441	7,746	130,187
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in accounts receivable	(488)	-	(488)
Net cash provided by operating activities	\$ 121,953	7,746	129,699

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY NET POSITION
PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
JUNE 30, 2013

	Private Purpose Trust - Scholarship				
	Coop Learning	Interest	Local Business Scholarships	Vera Pratt Memorial	Total
ASSETS					
Cash and pooled investments	\$ 112	1,583	2,875	19,478	24,048
LIABILITIES	-	-	-	-	-
NET POSITION					
Restricted for scholarships	\$ 112	1,583	2,875	19,478	24,048

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust - Scholarship					Total
	Coop Learning	Interest	Thomas Trust	Local Business Scholarships	Vera Pratt Memorial	
Additions:						
Local sources:						
Gifts and contributions	\$ -	-	-	4,500	126	4,626
Interest income	-	31	-	-	2,707	2,738
Total additions	-	31	-	4,500	2,833	7,364
Deductions:						
Instruction:						
Regular:						
Scholarships awarded	-	3,603	-	4,500	1,200	9,303
Change in net position before other financing uses	-	(3,572)	-	-	1,633	(1,939)
Other financing uses:						
Transfer out	-	-	(9,516)	-	-	(9,516)
Change in net position	-	(3,572)	(9,516)	-	1,633	(11,455)
Net position beginning of year	112	5,155	9,516	2,875	17,845	35,503
Net position end of year	\$ 112	1,583	-	2,875	19,478	24,048

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHEROKEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUND TYPES
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	\$ 4,528,862	4,524,221	4,208,118	3,831,302	3,708,534	3,722,451	3,775,786	3,803,191	4,130,990	3,718,429
Tuition	557,902	483,781	419,892	391,288	320,420	294,704	430,518	412,713	391,584	541,379
Other	469,053	403,762	645,693	314,833	355,107	414,058	425,011	430,355	463,574	382,965
State sources	5,556,128	5,357,603	5,488,494	5,117,522	5,813,944	5,603,650	5,359,416	5,199,779	4,915,157	4,744,590
Federal sources	251,889	397,097	516,832	846,885	306,317	270,283	269,795	278,532	314,978	518,117
Total	\$ 11,363,834	11,166,464	11,279,029	10,501,830	10,504,322	10,305,146	10,260,526	10,124,570	10,216,283	9,905,480
Expenditures:										
Instruction:										
Regular	\$ 4,120,162	4,028,840	4,024,489	4,089,062	4,106,620	4,044,641	3,783,259	3,779,027	3,709,947	3,755,705
Special	1,509,673	1,441,646	1,420,475	1,276,205	1,330,350	1,265,819	1,322,796	1,215,146	1,192,933	1,207,646
Other	1,275,064	1,234,797	1,349,984	1,364,636	1,269,163	1,155,147	1,160,229	1,219,738	1,197,441	1,212,211
Support services:										
Student	215,489	180,398	190,942	148,928	116,916	283,762	297,875	279,333	290,956	333,180
Instructional staff	250,374	223,896	224,051	211,953	174,892	190,845	196,262	208,404	190,824	199,325
Administration	1,272,154	1,310,862	1,183,250	1,113,835	1,096,043	1,065,286	1,135,445	1,039,176	983,605	973,019
Operation and maintenance of plant	752,086	738,022	730,548	747,469	787,118	786,353	764,119	766,771	777,970	820,447
Transportation	462,415	323,038	300,558	391,752	292,430	309,272	355,558	275,838	241,682	209,665
Central support	-	-	-	-	-	-	-	-	-	8,380
Other expenditures:										
Capital outlay	244,425	272,899	445,751	81,107	193,563	159,078	146,842	143,756	217,735	423,769
Long-term debt:										
Principal	480,000	465,000	450,000	430,000	415,000	380,000	365,000	350,000	330,000	315,000
Interest and other charges	115,650	132,425	150,375	167,525	184,125	234,623	251,668	268,467	284,308	299,328
AEA flow-through	369,342	367,805	413,858	411,845	366,161	352,720	346,427	326,372	318,596	323,297
Total	\$ 11,066,834	10,719,628	10,884,281	10,434,317	10,332,381	10,227,546	10,125,480	9,872,028	9,735,997	10,080,972

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental 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 Cherokee Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cherokee 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 Cherokee Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Cherokee 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, we identified deficiencies in internal control 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 and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

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

Compliance and Other Matters

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

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

Cherokee Community School District's Responses to Findings

Cherokee Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Cherokee 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 control 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 Cherokee 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, CORMAN & JOHNSON, P.C.

March 19, 2014
Newton, Iowa

CHEROKEE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties - One important aspect of internal 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, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Wire transfers - processing and approving.
- 6) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 7) Transfers - preparing and approving.
- 8) Financial reporting - preparing, reconciling and approving.
- 9) Computer systems - performing all general accounting functions and controlling all data input and output.
- 10) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-13 Purchase Orders - We noted during our audit that several purchase orders were dated after the invoice date.

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

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

Response - The District will review its process and procedures to ensure consistency.

Conclusion - Response accepted.

I-C-13 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The District will require all coaches who are non-certified staff to complete a record of hours worked.

Conclusion - Response accepted.

I-D-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. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - The District has increased collection efforts resulting in substantial decreases in negative lunch balances. Free and reduced lunch applications are given to all families in the District.

Conclusion - Response accepted.

I-E-13 Scholarship Awards - We noted during our audit that the District issued checks to underclassmen for scholarships in the name of the student only. A scholarship is exempt from state and federal taxes if the student uses the scholarship award to pay for tuition expenses.

Recommendation - If the District continues to award checks in the name of the student only for scholarships, the District should issue the students a W-2, in order to be in compliance with IRS requirements. The District could also hold all scholarships until the student graduates. Then the District should issue scholarship checks in the names of the

student and the college/university the student is attending once proof of attendance has been provided to the District. This way the District can ensure that scholarships are properly reported on the student's federal 1098T, where the amount will not be subject to federal tax withholdings.

Response - The sophomore recipient will not receive their award until their senior year. The check will be made payable to the student and the college/university.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - District expenditures/expenses for the year ended June 30, 2013, did not exceed the amount budgeted.

II-B-13 Questionable Disbursements - We noted during our audit that the District purchased gift cards to give to students as incentive prizes for improving testing scores. Gift cards as incentive prizes to students do not appear to meet public purpose as defined in Attorney General's opinion dated April 25, 1979.

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

Response - This is not a normal practice in the district and will not be allowed in the future.

Conclusion - Response accepted.

II-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-13 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Terri Weaver, Board Member owner Cherokee Collision Center LLC	Purchased services	\$ 70

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with Board Member does not appear to represent a conflict of interest.

II-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.

II-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

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

II-I-13 Deposits and Investments - The District's investment policy 704.3 appears to be in compliance with Chapter 12B and 12C of the Code of Iowa. However, the District's investment in common stock of Sempra Energy and the Franklin Income mutual fund appears to not be in compliance with the District's investment policy 704.3 and Chapter 12B and 12C of the Code of Iowa.

Recommendation - The District should review Board policy 704.3 and Chapters 12B and 12C of the Code of Iowa and make necessary adjustments to comply.

Response - The stock was gifted to the district many years ago and the dividends are to be used to fund the scholarships.

Conclusion - Response acknowledged. The District should comply with the code of Iowa.

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

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

II-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. 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		\$	1,168,479
Revenues:			
Sales tax revenues	\$	795,305	
Other local revenue		6,300	
			<u>801,605</u>
			1,970,084
Expenditures/transfer out:			
Transfer to another fund:			
Debt service fund			596,150
			<u>596,150</u>
Ending balance		\$	<u><u>1,373,934</u></u>

For the year ended June 30, 2013, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 2.49402	\$ 596,150

II-M-13 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to Chapter 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 be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The contracts will bear the signature of the Board President in the future.

Conclusion - Response accepted.

II-N-13 Interfund Loan - We noted during our audit the necessity for adjustments to interfund loan balances shown on the financial statements of this report between the General Fund and the Capital Projects: Physical Plant and Equipment Levy Fund due to materiality as a result of transactions recorded by the District to incorrect funds.

We noted during our audit that the District recorded a transaction of \$15,782 for a new bus engine from the Capital Projects: Physical Plant and Equipment Levy Fund. While this fund allows for purchases of transportation equipment, Iowa Code 298.3 does not specifically allow for repairs to transportation equipment. Since Iowa school districts operate under Dillon's Rule, repairs for transportation equipment would not be allowable from the Capital Projects: Physical Plant and Equipment Levy Fund. As a result of the transaction recorded by the District, the General Fund needs to repay the Capital Projects: Physical Plant and Equipment Levy Fund \$15,782 for the cost of the new bus engine.

We also noted during our audit that the District recorded a transaction of \$3,100 from the proceeds of the sale of a bus, truck and popcorn popper to the Capital Projects: Physical Plant and Equipment Levy Fund. Chapter 297.22 1(b) of the Code of Iowa states in part, "Proceeds from the sale or disposition of property other than real property shall be placed in the General Fund". Furthermore, items such as a bus, truck and popcorn popper are not considered as real property as defined by the following, "real property is any property that is attached directly to land as well as the land itself". Therefore, pursuant to Chapter 297.22 1(b) of the Code of Iowa and the previously mentioned definition of real property, the proceeds from the sale of the bus, truck and popcorn popper would not be allowable in the Capital Projects: Physical Plant and Equipment Levy Fund. As a result of the transaction recorded by the District, the Capital Projects: Physical Plant and Equipment Levy Fund needs to repay the General Fund \$3,100 for the proceeds from the sale of the bus, truck and popcorn popper.

The following is a summation of the net effect of the two previously mentioned transactions recorded by the District to arrive to the \$12,682 interfund loan that is shown in Note 4, page 34 and on the financial statements of this report:

Amount of bus engine owed by General Fund to	
Capital Projects: Physical Plant and Equipment Levy Fund	\$ 15,782
Amount of sale proceeds owed by Capital Projects:	
Physical Plant and Equipment Levy Fund to General Fund	<u>(3,100)</u>
Net amount of interfund loan, Note 4, page 34 and financial statements	<u>\$ 12,682</u>

Recommendation - The District needs to have the Board of Directors approve the repayment of \$12,682 from the General Fund to the Capital Projects: Physical Plant and Equipment Levy Fund as a correction for the above mentioned transactions. The District should review Iowa Code 298.3 for allowable expenditures from the Capital Projects: Physical Plant and Equipment Levy Fund. The District should record transactions for sale of property that does not meet the definition of real property in the General Fund.

Response - The District will do an interfund loan to correct the incorrect transactions to the Physical Plant and Equipment Levy.

Conclusion - Response accepted.

II-O-13 Payroll Authorization - We noted during our audit, the District does not maintain the written authorization to mail employees' payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

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

Response - The District will maintain written authorization for each employee who is receiving a payroll check by mail.

Conclusion - Response accepted.

II-P-13 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. However, we noted expenditures which do not appear to be related to cocurricular or extracurricular activities.

Questionable Account: We noted a WHS safety glasses and padlocks account in the Student Activity Fund. The revenues and expenditures related to the WHS safety glasses and padlocks accounts appear to be for instructional items and therefore, would be more appropriately handled in the General Fund.

Recommendation - The District should review the propriety of the revenues and expenditures that are approved in the Student Activity Fund. The revenues and expenditures in the WHS safety glasses and padlocks accounts appear to be more instructional in nature and would be more appropriate in the General Fund.

Response - The District will transfer the remaining padlock funds into the General Fund.

Conclusion - Response accepted.