

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

JUNE 30, 2013

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Creston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2012 Reorganizational Meeting)		
Rick Fyock	President	2015
Galen Zumbach	Vice President	2013
Rich Flynn	Board Member	2013
Kevin Scadden	Board Member (Resigned April 2012)	2013
Sharon Snodgrass	Board Member (Appointed May 2012)	2013
Ron Dunphy	Board Member	2015
Board of Education (After September 2012 Reorganizational Meeting)		
Sharon Snodgrass	President	2013
Galen Zumbach	Vice President	2013
Rich Flynn	Board Member	2013
Ron Dunphy	Board Member	2015
Rick Fyock	Board Member	2015
School Officials		
Tim Hood	Superintendent (Resigned August 2012)	2013
Chuck Scott	Superintendent (Appointed September 2012)	2013
Roy Stroud	Board Secretary/ Business Manager	2013
Pat Moeller	District Treasurer	2013
Gruhn Law Firm	Attorney	2013

CRESTON COMMUNITY SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Creston 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 the Creston Community School District, Creston, 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 of the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of account 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 the Creston 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 16 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 Creston Community School District's basic financial statements. We 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 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 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 May 26, 2014 on our consideration of Creston 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 Creston Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

May 26, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Creston 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 increased from \$13,932,275 in fiscal 2012 to \$14,739,238 in fiscal 2013, while General Fund expenditures increased from \$14,367,697 in fiscal 2012 to \$15,081,769 in fiscal 2013. The District's General Fund balance decreased from \$1,783,439 at June 30, 2012 to a balance of \$1,440,908 at June 30, 2013, a 19.21% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in amounts received for tuition and federal source revenues. The increase in expenditures can be attributed to the increase in expenditures in the instructional functional area.

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 Creston 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 Creston 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 Creston 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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

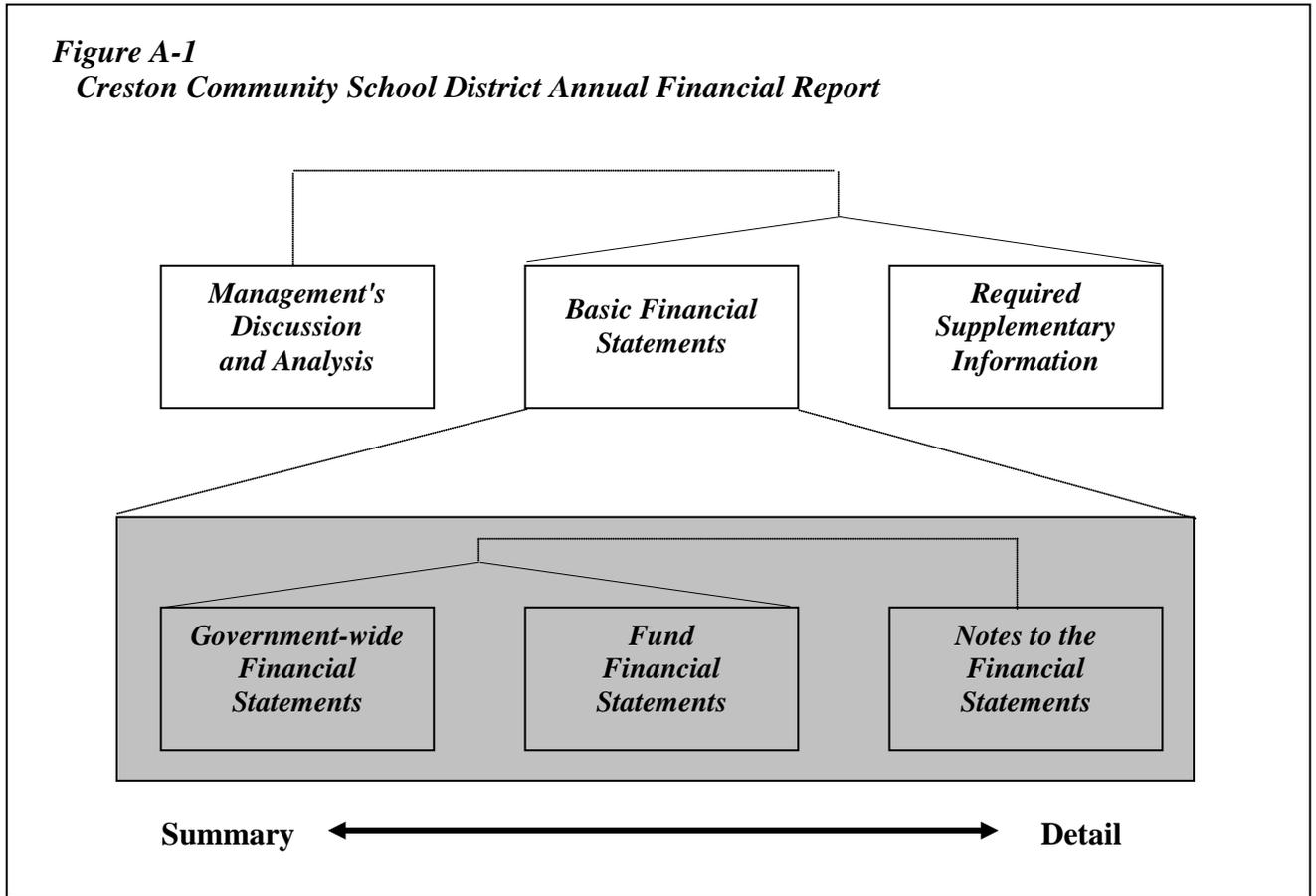


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
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
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
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
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

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 two 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 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, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

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.

	Governmental		Business type		Total		Total Change June 30, 2012-13
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2013	2012	2013	2012	2013	2012	
Current and other assets	\$ 10,658,772	12,192,155	433,786	382,671	11,092,558	12,574,826	-11.79%
Capital assets	23,213,487	20,689,501	123,157	175,717	23,336,644	20,865,218	11.84%
Total assets	<u>33,872,259</u>	<u>32,881,656</u>	<u>556,943</u>	<u>558,388</u>	<u>34,429,202</u>	<u>33,440,044</u>	<u>2.96%</u>
Long-term obligations	8,915,944	11,105,000	1,342	-	8,917,286	11,105,000	-19.70%
Other liabilities	7,438,198	6,612,755	57,570	51,284	7,495,768	6,664,039	12.48%
Total liabilities	<u>16,354,142</u>	<u>17,717,755</u>	<u>58,912</u>	<u>51,284</u>	<u>16,413,054</u>	<u>17,769,039</u>	<u>-7.63%</u>
Net position:							
Invested in capital assets, net of related debt	14,493,487	11,052,351	123,157	175,717	14,616,644	11,228,068	30.18%
Restricted	1,905,528	2,671,800	-	-	1,905,528	2,671,800	-28.68%
Unrestricted	1,119,102	1,439,750	374,874	331,387	1,493,976	1,771,137	-15.65%
Total net position	<u>\$ 17,518,117</u>	<u>15,163,901</u>	<u>498,031</u>	<u>507,104</u>	<u>18,016,148</u>	<u>15,671,005</u>	<u>14.96%</u>

The District's combined net position increased by 14.96% or approximately \$2,345,143 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 decreased \$766,272 or 28.68% from the prior year. The decrease in restricted fund balance is mainly attributable to decreases in the ending fund balances of the Management Levy Fund and the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirements - decreased \$277,161 or 15.65%. The decrease in unrestricted net position was due mainly to the decrease in ending fund balance for the General Fund.

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

Figure A-4 Changes in Net Position							
	Governmental Activities		Business type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	\$ 1,270,432	963,499	272,410	300,606	1,542,842	1,264,105	22.05%
Operating grants and contributions and restricted interest	2,022,957	1,639,135	567,563	507,344	2,590,520	2,146,479	20.69%
Capital grants and contributions and restricted interest	81,798	-	-	-	81,798	-	100.00%
General revenues:							
Property tax	5,077,542	4,915,044	-	-	5,077,542	4,915,044	3.31%
Income surtax	134,039	132,652	-	-	134,039	132,652	
Statewide sales, services and use tax	1,184,539	1,306,799	-	-	1,184,539	1,306,799	-9.36%
Unrestricted state grants	7,766,422	7,749,195	-	-	7,766,422	7,749,195	0.22%
Nonspecific program federal grants	-	4,235	-	-	-	4,235	-100.00%
Unrestricted investment earnings	5,721	34,077	331	402	6,052	34,479	-82.45%
Other	154,569	235,053	2,967	-	157,536	235,053	-32.98%
Total revenues	17,698,019	16,979,689	843,271	808,352	18,541,290	17,788,041	4.23%
Program expenses:							
Instructional	11,019,489	10,045,988	-	-	11,019,489	10,045,988	9.69%
Support services	4,978,465	4,747,346	92,706	107,843	5,071,171	4,855,189	4.45%
Non-instructional programs	8,595	-	759,638	651,040	768,233	651,040	18.00%
Other expenses	1,473,267	1,671,123	-	-	1,473,267	1,671,123	-11.84%
Total expenses	17,479,816	16,464,457	852,344	758,883	18,332,160	17,223,340	6.44%
Change in net position before extraordinary item	218,203	515,232	(9,073)	49,469	209,130	564,701	-62.97%
Extraordinary item(Note 15):							
Compensation for loss of capital assets	2,136,013	231,618	-	-	2,136,013	231,618	822.21%
Change in net position	2,354,216	746,850	(9,073)	49,469	2,345,143	796,319	194.50%
Net position beginning of year	15,163,901	14,417,051	507,104	457,635	15,671,005	14,874,686	5.35%
Net position end of year	\$ 17,518,117	15,163,901	498,031	507,104	18,016,148	15,671,005	14.96%

Property tax and unrestricted state grants accounted for 72.57% of the revenue from governmental activities while charges for service and sales and operating grants and contributions accounted for 99.61% of the revenue from business type activities.

The District's total revenues were approximately \$18.54 million of which approximately \$17.70 million was for governmental activities and approximately \$0.84 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.23% increase in revenues and a 6.44% increase in expenses. Property tax increased \$162,498 to fund expenditures. The increase in expenses is related to the increase in the instructional functional area.

Governmental Activities

Revenues for governmental activities were \$17,698,019 and expenses were \$17,479,816.

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

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 11,019,489	10,045,988	8.83%	8,324,592	8,003,333	3.86%
Support services	4,978,465	4,747,346	4.64%	4,836,126	4,691,706	2.99%
Non-instructional programs	8,595	-	100.00%	8,595	-	100.00%
Long-term debt interest	276,702	566,912	-104.88%	276,702	566,912	-104.88%
Other expenses	1,196,565	1,104,211	7.72%	658,614	599,872	8.92%
Totals	\$ 17,479,816	16,464,457	5.81%	14,104,629	13,861,823	1.72%

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$1,270,432.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,104,755.
- The net cost of governmental activities was financed with \$5,077,542 in property tax, \$134,039 in income surtax, \$1,184,539 in statewide sales, services and use tax, \$7,766,422 in unrestricted state grants, \$5,721 in interest income and \$154,569 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$843,271 and expenses were \$852,344. 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, investment income and other general revenues.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Creston 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 \$3,124,229, below last year's ending fund balances of \$5,473,327. One reason for the decrease in combined fund balances can be attributed to the decrease in fund balance for the Debt Service Fund. This decrease was a result the District paying off the general obligation bonds dated May 1, 2002 with proceeds of the crossover refunding bond issuance completed in the previous year.

Governmental Fund Highlights

- The General Fund balance decreased from \$1,783,439 at June 30, 2012 to \$1,440,908 at June 30, 2013. The District's declining General Fund financial position is the product of many factors. Increases in state and federal source revenues led to the increase in General Fund revenues. The increase in expenditures can be attributed to the increase in expenditures in the instructional functional area.
- The Capital Projects Accounts balance decreased from \$1,853,090 at June 30, 2012 to \$1,265,904 at June 30, 2013. The decrease in Capital Projects Accounts balance was primarily due to the increase in capital outlay expenditures as compared to the previous year due to construction of safe rooms for the middle school and high school.
- The Debt Service Fund balance decreased from \$1,456,000 at June 30, 2012 to \$18,868 at June 30, 2013. This decrease was the result of the District paying off the general obligation bonds dated May 1, 2002 with proceeds of the crossover refunding bond issuance completed in the previous year.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$507,104 at June 30, 2012 to \$498,031 at June 30, 2013, representing a decrease of 1.79%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$3,624,271 less than budgeted revenues, a variance of 16.36%. The most significant variance resulted from the District receiving less in federal 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 \$23,336,644, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 11.84% from the previous year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$842,042.

The original cost of the District's capital assets was \$34,288,105. Governmental funds account for \$33,693,452 with \$594,653 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,151,570 at June 30, 2013, compared to \$154,130 reported at June 30, 2012. This increase in construction in progress can be attributed to continuing construction of the elementary and high school safe rooms that were not completed at June 30, 2013.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 172,426	155,965	-	-	172,426	155,965	10.55%
Construction in progress	2,151,570	154,130	-	-	2,151,570	154,130	1295.94%
Buildings	18,961,277	19,470,311	-	-	18,961,277	19,470,311	-2.61%
Land improvements	1,609,958	555,755	-	-	1,609,958	555,755	189.69%
Machinery and equipment	318,256	353,340	123,157	175,717	441,413	529,057	-16.57%
Total	\$ 23,213,487	20,689,501	123,157	175,717	23,336,644	20,865,218	11.84%

Long-Term Debt

At June 30, 2013, the District had long-term debt outstanding of \$8,917,286 in general obligation bonds, capital loan notes and other long-term debt. This represents a decrease of approximately 19.70% from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$8,375,000 at June 30, 2013.

The District had total outstanding capital loan notes payable of \$345,000 at June 30, 2013.

The District had total termination benefits payable from the Management Levy Fund of \$110,000 and \$20,000 from the General Fund at June 30, 2013.

The District had outstanding compensated absences of \$31,433 at June 30, 2013; of this amount \$30,729 is attributable to Governmental activities and \$704 to business type activities.

The District had a net OPEB liability of \$35,853 at June 30, 2013; of this amount \$35,215 is attributable to Governmental activities and \$638 to business type activities

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
General obligation bonds	\$ 8,375,000	10,600,000	-	-	8,375,000	10,600,000	-20.99%
Capital loan notes	345,000	505,000	-	-	345,000	505,000	-31.68%
Termination benefits	130,000	-	-	-	130,000	-	100.00%
Compensated absences	30,729	-	704	-	31,433	-	100.00%
Net OPEB liability	35,215	-	638	-	35,853	-	100.00%
Total	\$ 8,915,944	11,105,000	1,342	-	8,917,286	11,105,000	-19.70%

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Steve McDermott, Superintendent, Creston Community School District, 801 N Elm, Creston, Iowa, 50801.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,532,674	395,711	3,928,385
Receivables:			
Property tax:			
Delinquent	65,930	-	65,930
Succeeding year	5,045,890	-	5,045,890
Income surtax	127,630	-	127,630
Accounts	5,576	1,564	7,140
Due from other governments	1,881,072	4,637	1,885,709
Inventories	-	31,874	31,874
Capital assets, net of accumulated depreciation	23,213,487	123,157	23,336,644
TOTAL ASSETS	33,872,259	556,943	34,429,202
LIABILITIES			
Accounts payable	350,056	-	350,056
Salaries and benefits payable	1,390,613	46,437	1,437,050
Interest payable	31,412	-	31,412
Deferred revenue:			
Succeeding year property tax	5,045,890	-	5,045,890
Other	620,227	-	620,227
Unearned revenue	-	11,133	11,133
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	815,000	-	815,000
Capital loan notes payable	170,000	-	170,000
Termination benefits payable	80,000	-	80,000
Compensated absences payable	30,729	704	31,433
Portion due after one year:			
General obligation bonds	7,560,000	-	7,560,000
Capital loan notes	175,000	-	175,000
Termination benefits payable	50,000	-	50,000
Net OPEB liability	35,215	638	35,853
TOTAL LIABILITIES	16,354,142	58,912	16,413,054
NET POSITION			
Invested in capital assets, net of related debt	14,493,487	123,157	14,616,644
Restricted for:			
Categorical funding	349,853	-	349,853
Management levy purposes	71,440	-	71,440
Student activities	139,252	-	139,252
Disaster recovery	79,079	-	79,079
School infrastructure	955,447	-	955,447
Physical plant and equipment	310,457	-	310,457
Unrestricted	1,119,102	374,874	1,493,976
TOTAL NET POSITION	\$ 17,518,117	498,031	18,016,148

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT B

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

	Program Revenues			Net (Expense) Revenue and Change in Net Position		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 6,386,909	598,171	306,848	-	(5,481,890)	- (5,481,890)
Special	2,435,314	291,976	177,354	-	(1,965,984)	- (1,965,984)
Other	2,197,266	345,001	975,547	-	(876,718)	- (876,718)
	<u>11,019,489</u>	<u>1,235,148</u>	<u>1,459,749</u>	<u>-</u>	<u>(8,324,592)</u>	<u>- (8,324,592)</u>
Support services:						
Student	464,822	-	-	-	(464,822)	- (464,822)
Instructional staff	346,724	-	-	-	(346,724)	- (346,724)
Administration	1,662,448	-	-	-	(1,662,448)	- (1,662,448)
Operation and maintenance of plant	1,891,630	19,510	-	81,798	(1,790,322)	- (1,790,322)
Transportation	612,841	15,774	25,257	-	(571,810)	- (571,810)
	<u>4,978,465</u>	<u>35,284</u>	<u>25,257</u>	<u>81,798</u>	<u>(4,836,126)</u>	<u>- (4,836,126)</u>
Non-instructional programs:						
Food service operations	8,595	-	-	-	(8,595)	- (8,595)
Long-term debt interest	276,702	-	-	-	(276,702)	- (276,702)
Other expenses:						
AEA flowthrough	537,951	-	537,951	-	-	-
Depreciation(unallocated)*	658,614	-	-	-	(658,614)	- (658,614)
	<u>1,196,565</u>	<u>-</u>	<u>537,951</u>	<u>-</u>	<u>(658,614)</u>	<u>- (658,614)</u>
Total governmental activities	<u>17,479,816</u>	<u>1,270,432</u>	<u>2,022,957</u>	<u>81,798</u>	<u>(14,104,629)</u>	<u>- (14,104,629)</u>
Business type activities:						
Support services:						
Administration	77,919	-	-	-	(77,919)	(77,919)
Operation and maintenance of plant	14,787	-	-	-	(14,787)	(14,787)
Total support services	<u>92,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(92,706)</u>	<u>(92,706)</u>
Non-instructional programs:						
Nutrition services	759,638	272,410	567,563	-	-	80,335 80,335
Total business type activities	<u>852,344</u>	<u>272,410</u>	<u>567,563</u>	<u>-</u>	<u>-</u>	<u>(12,371) (12,371)</u>
Total	<u>\$ 18,332,160</u>	<u>1,542,842</u>	<u>2,590,520</u>	<u>81,798</u>	<u>(14,104,629)</u>	<u>(12,371) (14,117,000)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 4,063,555	-	4,063,555
Debt service				793,708	-	793,708
Capital outlay				220,279	-	220,279
Income surtax				134,039	-	134,039
Statewide sales, services and use tax				1,184,539	-	1,184,539
Unrestricted state grants				7,766,422	-	7,766,422
Unrestricted investment earnings				5,721	331	6,052
Other				154,569	2,967	157,536
Total general revenues				<u>14,322,832</u>	<u>3,298</u>	<u>14,326,130</u>
Change in net position before extraordinary item				218,203	(9,073)	209,130
Extraordinary item(Note 15):						
Compensation for loss of capital assets				2,136,013	-	2,136,013
Change in net position				2,354,216	(9,073)	2,345,143
Net position beginning of year				15,163,901	507,104	15,671,005
Net position end of year				<u>\$ 17,518,117</u>	<u>498,031</u>	<u>18,016,148</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Disaster Recovery (Tornado Damage)	Nonmajor	Total
ASSETS						
Cash and pooled investments	\$ 2,043,933	1,069,510	8,925	79,079	331,100	3,532,547
Receivables:						
Property tax:						
Delinquent	52,245	2,758	9,943	-	984	65,930
Succeeding year	3,723,706	229,704	742,480	-	350,000	5,045,890
Income surtax	-	127,630	-	-	-	127,630
Accounts	5,576	-	-	-	-	5,576
Due from other governments	1,067,209	813,863	-	-	-	1,881,072
TOTAL ASSETS	\$ 6,892,669	2,243,465	761,348	79,079	682,084	10,658,645
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 337,442	-	-	-	12,614	350,056
Salaries and benefits payable	1,390,613	-	-	-	-	1,390,613
Deferred revenue:						
Succeeding year property tax	3,723,706	229,704	742,480	-	350,000	5,045,890
Income surtax	-	127,630	-	-	-	127,630
Other	-	620,227	-	-	-	620,227
Total liabilities	5,451,761	977,561	742,480	-	362,614	7,534,416
Fund balances:						
Restricted for:						
Categorical funding	349,853	-	-	-	-	349,853
Debt service	-	-	18,868	-	-	18,868
Management levy purposes	-	-	-	-	181,440	181,440
Student activities	-	-	-	-	139,252	139,252
Disaster recovery	-	-	-	79,079	-	79,079
School infrastructure	-	955,447	-	-	-	955,447
Physical plant and equipment	-	310,457	-	-	-	310,457
Assigned for special purposes	1,914	-	-	-	-	1,914
Unassigned:						
General	1,089,141	-	-	-	-	1,089,141
Student activities	-	-	-	-	(1,222)	(1,222)
Total fund balances	1,440,908	1,265,904	18,868	79,079	319,470	3,124,229
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,892,669	2,243,465	761,348	79,079	682,084	10,658,645

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON 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)	\$	3,124,229
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		23,213,487
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.		(31,412)
Accounts receivable income surtax are not yet available to finance expenditures of the current fiscal period.		127,630
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		127
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, termination benefits payable, compensated absences payable, and other postemployment benefits are not due and payable in the current period and, are not reported as liabilities in the governmental funds.		<u>(8,915,944)</u>
Net position of governmental activities(page 18)	\$	<u><u>17,518,117</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT E

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

	General	Capital Projects	Debt Service	Disaster Recovery (Tornado Damage)	Nonmajor	Total
REVENUES:						
Local sources:						
Local tax	\$ 3,988,489	1,532,635	793,708	-	75,066	6,389,898
Tuition	787,780	-	-	-	-	787,780
Other	358,864	2,140	1,970	-	499,720	862,694
State sources	8,889,782	9,739	418	-	41	8,899,980
Federal sources	679,270	72,175	-	-	-	751,445
Total revenues	14,704,185	1,616,689	796,096	-	574,827	17,691,797
EXPENDITURES:						
Current:						
Instruction:						
Regular	6,198,443	-	-	-	30,000	6,228,443
Special	2,425,295	-	-	-	-	2,425,295
Other	1,698,563	-	-	-	493,067	2,191,630
	10,322,301	-	-	-	523,067	10,845,368
Support services:						
Student	460,803	-	-	-	-	460,803
Instructional staff	346,001	-	-	-	-	346,001
Administration	1,591,936	-	-	-	10,000	1,601,936
Operation and maintenance of plant	1,247,120	-	-	13,130	94,493	1,354,743
Transportation	575,657	-	-	-	-	575,657
	4,221,517	-	-	13,130	104,493	4,339,140
Non-instructional programs:						
Food service operations	-	-	-	-	8,595	8,595
Capital outlay	-	1,766,105	-	2,043,804	-	3,809,909
Long-term debt:						
Principal	-	-	2,385,000	-	-	2,385,000
Interest and fiscal charges	-	-	285,998	-	-	285,998
	-	-	2,670,998	-	-	2,670,998
Other expenditures:						
AEA flowthrough	537,951	-	-	-	-	537,951
Total expenditures	15,081,769	1,766,105	2,670,998	2,056,934	636,155	22,211,961
Deficiency of revenues under expenditures	(377,584)	(149,416)	(1,874,902)	(2,056,934)	(61,328)	(4,520,164)
Other financing sources(uses):						
Transfer in	-	-	437,770	-	-	437,770
Transfer out	-	(437,770)	-	-	-	(437,770)
Compensation for loss of capital assets	-	-	-	2,136,013	-	2,136,013
Insurance proceeds	25,128	-	-	-	-	25,128
Sale of equipment	9,925	-	-	-	-	9,925
Total other financing sources(uses)	35,053	(437,770)	437,770	2,136,013	-	2,171,066
Change in fund balances	(342,531)	(587,186)	(1,437,132)	79,079	(61,328)	(2,349,098)
Fund balance beginning of year	1,783,439	1,853,090	1,456,000	-	380,798	5,473,327
Fund balance end of year	\$ 1,440,908	1,265,904	18,868	79,079	319,470	3,124,229

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT F

CRESTON 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) \$ (2,349,098)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlay 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. Depreciation expense, capital outlay expenditures and loss on asset disposal in the current year are as follows:

Capital outlay	\$ 3,319,174	
Depreciation expense	(789,482)	
Loss on asset disposal	<u>(5,706)</u>	2,523,986

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.

Current year repayments are as follows: 2,385,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 9,296

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 6,222

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 45

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, as follows:

Termination benefits	\$ (130,000)	
Compensated absences	(30,729)	
Other postemployment benefits	<u>(60,506)</u>	<u>(221,235)</u>

Change in net position of governmental activities(page 19) \$ 2,354,216

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
ASSETS		
Current assets:		
Cash and pooled investments	\$ 395,711	127
Accounts receivable	1,564	-
Due from other governments	4,637	-
Inventories	31,874	-
Total current assets	433,786	127
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	123,157	-
TOTAL ASSETS	556,943	127
LIABILITIES		
Current liabilities:		
Salaries and benefits payable	46,437	-
Unearned revenue	11,133	-
Total current liabilities	57,570	-
Long-term liabilities:		
Compensated absences	704	-
Net OPEB liability	638	-
Total long-term liabilities	1,342	-
TOTAL LIABILITIES	58,912	-
NET POSITION		
Invested in capital assets	123,157	-
Unrestricted	374,874	127
TOTAL NET POSITION	\$ 498,031	127

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 272,410	-
Miscellaneous	2,967	900,343
TOTAL OPERATING REVENUES	275,377	900,343
OPERATING EXPENSES:		
Support services:		
Administration:		
Salaries	57,046	-
Benefits	17,277	-
Services	3,596	-
Operation and maintenance of plant:		
Services	14,787	-
Total support services	92,706	-
Non-instructional programs:		
Food service operations:		
Salaries	224,998	-
Benefits	50,005	-
Services	506	-
Supplies	430,777	-
Other	792	-
Depreciation	52,560	-
	759,638	-
Other enterprise operations:		
Benefits	-	900,343
Total non-instructional programs	759,638	900,343
TOTAL OPERATING EXPENSES	852,344	900,343
OPERATING LOSS	(576,967)	-
NON-OPERATING REVENUES:		
Interest	331	45
State sources	7,928	-
Federal sources	559,635	-
TOTAL NON-OPERATING REVENUES	567,894	45
Change in net position	(9,073)	45
Net position beginning of year	507,104	82
Net position end of year	\$ 498,031	127

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 274,767	-
Cash received from miscellaneous operating activities	2,967	900,343
Cash payments to employees for services	(344,590)	-
Cash payments to suppliers for goods or services	(418,449)	(900,343)
Net cash used in operating activities	(485,305)	-
Cash flows from non-capital financing activities:		
State grants received	7,928	-
Federal grants received	523,656	-
Net cash provided by non-capital financing activities	531,584	-
Cash flows from investing activities:		
Interest on investments	331	45
Net increase in cash and cash equivalents	46,610	45
Cash and cash equivalents beginning of year	349,101	82
Cash and cash equivalents end of year	\$ 395,711	127
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (576,967)	-
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	35,979	-
Depreciation	52,560	-
Increase in inventories	(3,195)	-
Increase in accounts receivable	(1,564)	-
Decrease in accounts payable	(775)	-
Increase in salaries and benefits payable	3,140	-
Increase in unearned revenue	3,921	-
Increase in accrued compensated absences	704	-
Increase in other postemployment benefits	892	-
Net cash used in operating activities	\$ (485,305)	-

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$35,979.

SEE NOTES TO FINANCIAL STATEMENTS.

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

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Creston 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 Creston 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 Adams, Ringgold and Union County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Position 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 and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

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

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor proprietary fund:

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

The District reports the following other proprietary fund:

The Internal Service Fund is used to account for employee medical benefits received by District employees.

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 is 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 - restricted 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 fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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 - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net 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	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

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

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

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

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

Compensated Absences - District employees under a twelve month contract accumulate a limited amount of earned but unused vacation benefits payable. The cost of vacation payments expected to be liquidated currently is recorded as a liability of the General Fund and the School Nutrition Fund. The compensated absences liability has been computed based on per diem rates based from the employees' contract in effect during the fiscal year.

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.

Assigned - Amounts are not available for appropriation but are set aside for a specific purpose. The District's assigned fund balances are in the General Fund and consist of the Knights of Columbus donations that are intended for use for special education children.

Unassigned - All amounts not included in other spendable classifications. Negative unassigned balances may be reported in other governmental funds when expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned. At June 30, 2013, the District had an unassigned balance of \$1,089,141 in the General Fund and three individual accounts in the Activity Fund with a total deficit unassigned balance of \$1,222.

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

E. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

The District's deposits 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,368,487 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust were both rated AAA by Standard and Poor's Financial Services.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
	Capital Projects:	
Debt Service	Statewide Sales, Services and Use Tax	\$ 260,000
	Capital Projects:	
Debt Service	Physical Plant and Equipment Levy	177,770
Total		<u>\$ 437,770</u>

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

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed to pay principal and interest on the District's capital loan note indebtedness.

Note 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 155,965	16,461	-	172,426
Construction in progress	154,130	1,997,440	-	2,151,570
Total capital assets not being depreciated	<u>310,095</u>	<u>2,013,901</u>	<u>-</u>	<u>2,323,996</u>
Capital assets being depreciated:				
Buildings	26,943,438	48,219	-	26,991,657
Land improvements	1,197,362	1,155,564	-	2,352,926
Machinery and equipment	2,242,533	101,490	319,150	2,024,873
Total capital assets being depreciated	<u>30,383,333</u>	<u>1,305,273</u>	<u>319,150</u>	<u>31,369,456</u>
Less accumulated depreciation for:				
Buildings	7,473,127	557,253	-	8,030,380
Land improvements	641,607	101,361	-	742,968
Machinery and equipment	1,889,193	130,868	313,444	1,706,617
Total accumulated depreciation	<u>10,003,927</u>	<u>789,482</u>	<u>313,444</u>	<u>10,479,965</u>
Total capital assets being depreciated, net	<u>20,379,406</u>	<u>515,791</u>	<u>5,706</u>	<u>20,889,491</u>
Governmental activities capital assets, net	<u>\$ 20,689,501</u>	<u>2,529,692</u>	<u>5,706</u>	<u>23,213,487</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 594,653	-	-	594,653
Less accumulated depreciation	418,936	52,560	-	471,496
Business type activities capital assets, net	\$ 175,717	(52,560)	-	123,157

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 30,894
Other		26,124
Support services:		
Administration		9,420
Operation and maintenance of plant		4,565
Transportation		59,865
		<u>130,868</u>
Unallocated depreciation		<u>658,614</u>
Total governmental activities depreciation expense		<u>\$ 789,482</u>
Business type activities:		
Food services		<u>\$ 52,560</u>

Note 5. 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	\$ 10,600,000	-	2,225,000	8,375,000	815,000
Capital loan notes	505,000	-	160,000	345,000	170,000
Termination benefits	-	130,000	-	130,000	80,000
Compensated absences	-	30,729	-	30,729	30,729
Net OPEB liability	-	35,215	-	35,215	-
Total	\$ 11,105,000	195,944	2,385,000	8,915,944	1,095,729
<u>Business Type Activities:</u>					
Compensated absences	\$ -	704	-	704	704
Net OPEB liability	-	638	-	638	-
Total	\$ -	1,342	-	1,342	704

General Obligation Bonds Payable

Details of the District's June 30, 2013 General Obligation bond indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 7, 2012			Bond Issue of September 1, 2010			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2014	0.45 %	\$ 115,000	22,020	1.20 %	\$ 700,000	154,460	815,000	176,480	991,480
2015	0.60	120,000	21,503	1.50	710,000	146,060	830,000	175,963	1,005,963
2016	0.75	115,000	20,783	1.80	730,000	135,410	845,000	166,843	1,011,843
2017	1.00	120,000	19,920	2.10	735,000	122,270	855,000	155,330	1,010,330
2018	1.15	120,000	18,720	2.25	750,000	106,835	870,000	140,990	1,010,990
2019-2023	1.35-2.10	925,000	68,034	2.50-3.00	3,235,000	234,880	4,160,000	302,914	4,462,914
Total		<u>\$ 1,515,000</u>	<u>170,980</u>		<u>\$ 6,860,000</u>	<u>899,915</u>	<u>\$ 8,375,000</u>	<u>1,118,520</u>	<u>9,493,520</u>

Capital Loan Notes Payable

Details of the District's June 30, 2013 capital loan notes indebtedness, which will be paid from the Capital Projects: Physical Plant and Equipment Levy Fund, is as follows:

Year Ending June 30,	Note Issue of March 1, 2004			
	Interest Rates	Principal	Interest	Total
2014	3.45 %	\$ 170,000	11,990	181,990
2015	3.50	175,000	6,125	181,125
Total		<u>\$ 345,000</u>	<u>18,115</u>	<u>363,115</u>

Termination Benefits Payable (Early Retirement)

During the year ended June 30, 2013, the District offered a one-time voluntary early retirement plan to all full-time employees. Eligible employees must be at least age fifty-five at the time of retirement and must have completed thirteen years of service to the District. Employees must complete an application which is required to be approved by the District's Board of Directors.

Early retirement incentives for each eligible employee is equal to a percentage of the employee's basic yearly salary and one days pay of that salary for each two days of unused accumulated sick leave not to exceed a maximum benefit of \$20,000. At June 30, 2013, the District has obligations to eight participants with a total liability of \$130,000.

Note 6. 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 salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$787,612, \$698,371, and \$575,723 respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 130 active and 20 retired members in the plan. Employees must be age 55 or older at retirement and have thirteen or more years of service to the District.

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

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

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

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

Annual required contribution	\$ 90,654
Interest on net OPEB obligation	(1,150)
Adjustment to annual required contribution	1,019
Annual OPEB cost	<u>90,523</u>
Contributions made	<u>(29,125)</u>
Increase in net OPEB obligation	61,398
Net OPEB obligation - beginning of year	<u>(25,545)</u>
Net OPEB obligation - end of year	<u>\$ 35,853</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 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	\$ 153,565	149.77%	\$ 69,000
2012	153,455	161.61%	(25,545)
2013	90,523	32.17%	35,853

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 \$886,241, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$886,241. The covered payroll (annual payroll of active employees covered by the plan) was \$6,060,971, and the ratio of the UAAL to the covered payroll was 14.6%. 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 healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of July 1, 2012 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 9.5%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Combined Generational Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2011 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$689 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, life and long-term disability.

District contributions to ISEBA for the year ended June 30, 2013, were \$1,128,997.

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

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$537,951 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. 28E Agreement

The District participates in a 28E shared use agreement with Green Hills Area Education Agency(AEA) for shared administrative offices that are located on the District’s grounds. The agreement is to remain in effect until June 30, 2040.

The following are terms agreed upon by the District and the AEA for shared administrative offices on the District’s grounds:

The AEA agrees to give the District title of three acres that formerly housed the AEA. The AEA also agrees to contribute \$175,000 to expand and improve the base parking area at the District’s administrative facility to serve an additional fifty vehicles. The AEA is responsible for improving, constructing and updating the facilities on the District’s grounds where the AEA’s administrative offices are to be located subject to approval by the District. The AEA is responsible for maintenance and repair of the facility where their administrative offices are located. The AEA is to provide casualty insurance for the area housing the administrative offices.

The District agrees to provide the AEA with a facility on the District’s grounds that will house the AEA. The District agrees to contribute \$175,000 to expand and improve the base parking area at the District’s administrative facility to serve an additional fifty vehicles. The District agrees to provide the AEA with daily custodial services for their offices and shall bill the AEA accordingly. The District shall separately meter electric usage and bill the AEA monthly.

In the event that the District terminates this agreement with the AEA, the District is responsible for reimbursing the AEA a certain percentage of the actual capital costs the AEA incurred to improve the District’s facility in order to house the AEA based on the termination dates that are illustrated in the following table:

Termination Dates	Percentage
Before June 30, 2020	100%
Between July 1, 2020 and June 30, 2030	50%
Between July 1, 2030 and June 30, 2035	25%
Between July 1, 2035 and June 30, 2040	10%

Upon expiration of this agreement on June 30, 2040, the District and the AEA reserve the right to renegotiate and extend the agreement.

Note 11. Deficit Unassigned Balance

At June 30, 2013, the District had three accounts in the Student Activity Fund with deficit unassigned balances totaling \$1,222.

Note 12. Construction Commitment

The District has entered into contracts totaling \$3,118,578 for the construction of a safe room for the elementary and high school buildings, a new press box at the baseball field and the construction of a new bus barn. As of June 30, 2013, costs of \$2,151,570 had been incurred against the contracts. The balance of \$967,008 remaining at June 30, 2013 will be paid as work on the project progresses.

Note 13. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
Weighted at-risk programs	\$ 20,204
Gifted and talented	162,213
Dropout and dropout prevention	56,157
Beginning teacher mentoring	7,153
Teacher salary supplement	62,356
Model core curriculum	41,770
Total	<u>\$ 349,853</u>

Note 14. Lease Agreements

During the year ended June 30, 2013, the District entered into an agreement with Barker Implement of Creston, Iowa for the rental of facilities for use by the District as a bus barn. Terms of the agreement are \$2,000 per month until the District has completed construction of a new bus barn to replace the one that was completely destroyed by the tornado damage that occurred in fiscal year 2012.

During the year ended June 30, 2013, the District entered into agreements totaling \$441.57 per month with Mobile Mini of Omaha, Nebraska for the rental of structures that serve as the District's temporary transportation department's office space and storage area. The District plans to continue leasing the structures until construction of a new bus barn is completed to replace the one that was destroyed by the tornado damage that occurred in fiscal year 2012.

Note 15. Extraordinary Item

During the year ended June 30, 2013, the District received compensation for loss of capital assets of \$2,136,013 due to tornado damage that occurred during the prior fiscal year. As work progresses to repair or replace capital assets due to tornado damage, the District will be receiving additional compensation for loss of capital assets in fiscal year 2014.

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual		Actual	Actual	Variance
Revenues:						
Local sources	\$ 8,040,372	275,708	8,316,080	8,424,351	8,424,351	(108,271)
Intermediate sources	-	-	-	1,000	1,000	(1,000)
State sources	8,899,980	7,928	8,907,908	9,045,988	9,045,988	(138,080)
Federal sources	751,445	559,635	1,311,080	4,688,000	4,688,000	(3,376,920)
Total revenues	<u>17,691,797</u>	<u>843,271</u>	<u>18,535,068</u>	<u>22,159,339</u>	<u>22,159,339</u>	<u>(3,624,271)</u>
Expenditures/Expenses:						
Instruction	10,845,368	-	10,845,368	13,270,849	13,270,849	2,425,481
Support services	4,339,140	92,706	4,431,846	5,340,000	5,340,000	908,154
Non-instructional programs	8,595	759,638	768,233	1,158,036	1,158,036	389,803
Other expenditures	7,018,858	-	7,018,858	14,180,033	14,180,033	7,161,175
Total expenditures/expenses	<u>22,211,961</u>	<u>852,344</u>	<u>23,064,305</u>	<u>33,948,918</u>	<u>33,948,918</u>	<u>10,884,613</u>
Deficiency of revenues under expenditures/expenses	(4,520,164)	(9,073)	(4,529,237)	(11,789,579)	(11,789,579)	7,260,342
Other financing sources, net	<u>2,171,066</u>	-	<u>2,171,066</u>	-	-	<u>2,171,066</u>
Deficiency of revenues and other financing sources under expenditures/expenses	(2,349,098)	(9,073)	(2,358,171)	(11,789,579)	(11,789,579)	9,431,408
Balance beginning of year	<u>5,473,327</u>	<u>507,104</u>	<u>5,980,431</u>	<u>11,789,579</u>	<u>11,789,579</u>	<u>(5,809,148)</u>
Balance end of year	<u>\$ 3,124,229</u>	<u>498,031</u>	<u>3,622,260</u>	-	-	<u>3,622,260</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON 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 Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$1,047	\$1,047	0.0%	\$4,126	25.4%
2010	July 1, 2008	\$ -	\$1,047	\$1,047	0.0%	\$5,622	18.6%
2011	July 1, 2010	\$ -	\$1,380	\$1,380	0.0%	\$5,703	24.2%
2012	July 1, 2010	\$ -	\$1,380	\$1,380	0.0%	\$5,834	23.7%
2013	July 1, 2012	\$ -	\$886	\$886	0.0%	\$6,061	14.6%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

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

	Special Revenue		
	Management Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 180,456	150,644	331,100
Receivables:			
Property tax:			
Delinquent	984	-	984
Succeeding year	350,000	-	350,000
TOTAL ASSETS	\$ 531,440	150,644	682,084
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	12,614	12,614
Deferred revenue:			
Succeeding year property tax	350,000	-	350,000
Total liabilities	350,000	12,614	362,614
 Fund balances:			
Restricted for:			
Management levy purposes	181,440	-	181,440
Student activities	-	139,252	139,252
Unassigned	-	(1,222)	(1,222)
Total fund balances	181,440	138,030	319,470
TOTAL LIABILITIES AND FUND BALANCES	\$ 531,440	150,644	682,084

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		
	Management Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 75,066	-	75,066
Other	62	499,658	499,720
State sources	41	-	41
Total revenues	<u>75,169</u>	<u>499,658</u>	<u>574,827</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	30,000	-	30,000
Other	-	493,067	493,067
Support services:			
Administration	10,000	-	10,000
Operation and maintenance of plant	94,493	-	94,493
Non-instructional programs:			
Food service operations	8,595	-	8,595
Total expenditures	<u>143,088</u>	<u>493,067</u>	<u>636,155</u>
Change in fund balances	(67,919)	6,591	(61,328)
Fund balance beginning of year	<u>249,359</u>	<u>131,439</u>	<u>380,798</u>
Fund balance end of year	<u>\$ 181,440</u>	<u>138,030</u>	<u>319,470</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 761,811	307,699	1,069,510
Receivables:			
Property tax:			
Delinquent	-	2,758	2,758
Succeeding year	-	229,704	229,704
Income surtax	-	127,630	127,630
Due from other governments	813,863	-	813,863
TOTAL ASSETS	\$ 1,575,674	667,791	2,243,465
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	229,704	229,704
Income surtax	-	127,630	127,630
Other	620,227	-	620,227
Total liabilities	620,227	357,334	977,561
Fund balances:			
Restricted for:			
School infrastructure	955,447	-	955,447
Physical plant and equipment	-	310,457	310,457
Total fund balances	955,447	310,457	1,265,904
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,575,674	667,791	2,243,465

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,184,539	348,096	1,532,635
Other	1,513	627	2,140
State sources	9,623	116	9,739
Federal sources	72,175	-	72,175
Total revenues	1,267,850	348,839	1,616,689
EXPENDITURES:			
Current:			
Capital outlay	1,462,247	303,858	1,766,105
Excess(Deficiency) of revenues over(under) expenditures	(194,397)	44,981	(149,416)
Other financing uses:			
Transfer out	(260,000)	(177,770)	(437,770)
Change in fund balances	(454,397)	(132,789)	(587,186)
Fund balances beginning of year	1,409,844	443,246	1,853,090
Fund balances end of year	\$ 955,447	310,457	1,265,904

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
HS general athletics	\$ 22,739	46,807	35,552	(2,206)	31,788
Bowling	82	3,890	3,794	-	178
Boys basketball	1,460	3,978	4,444	-	994
MS boys basketball	150	1,000	893	-	257
Football	1,192	15,724	7,478	(7,110)	2,328
MS football	171	1,064	1,226	-	9
HS boys soccer	-	2,480	4,919	2,505	66
Baseball	1,421	10,859	9,015	(921)	2,344
Boys track	75	130	3,721	3,585	69
MS boys track	385	194	978	500	101
Boys cross country	177	2,105	2,700	-	(418)
Boys tennis	-	-	1,481	1,500	19
Boys golf	-	12	1,268	1,651	395
Wrestling	48	7,734	13,748	7,000	1,034
MS wrestling	425	1,204	585	-	1,044
Girls basketball	3,290	4,783	8,619	928	382
MS girls basketball	-	595	1,022	450	23
Volleyball	1,563	4,540	3,951	(538)	1,614
MS volleyball	31	731	1,034	275	3
HS girls soccer	-	697	1,368	1,064	393
Softball	316	3,649	8,147	4,345	163
Girls track	250	2,190	5,189	2,850	101
MS girls track	-	-	444	450	6
Girls tennis	6	-	-	-	6
Girls golf	6	-	262	360	104
Annual	7,709	12,832	16,709	-	3,832
Cheerleaders	1,562	8,118	7,689	(712)	1,279
Class of 2013	3,136	30	392	(2,774)	-
Class of 2014	366	8,916	5,574	-	3,708
Class of 2015	391	-	233	-	158
Class of 2016	36	50	80	-	6
FFA	15,092	52,781	50,317	344	17,900
FCCLA	2,352	-	-	-	2,352
FBLA	1,466	23,926	24,460	333	1,265
Interest	-	268	-	-	268
Marching panthers	1,041	16,789	16,712	(741)	377
Panther guard	97	2,850	3,552	700	95
National honor society	-	-	140	140	-
Panther boys basketball	1,575	4,825	6,101	-	299

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 5

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Panther girls basketball	1,840	20,918	20,958	(443)	1,357
Panther boys golf	679	-	323	106	462
Panther boys cross country	6,910	4,078	3,106	-	7,882
Panther boys tennis	1	1,407	2,340	215	(717)
Panther boys track	599	215	63	(215)	536
Panther football	2,229	38,269	39,725	(390)	383
Panther girls track	1,008	7,047	5,612	-	2,443
Panther girls tennis	269	269	-	(269)	269
Panther singers	267	7,329	7,827	4,000	3,769
Panther softball	2,060	6,042	5,606	-	2,496
Panther volleyball	2,604	6,842	4,512	(575)	4,359
Panther weight club	250	-	-	-	250
Panther wrestlers	3,741	6,081	7,464	-	2,358
Panther speech club	7	826	1,253	668	248
Student activity	-	28,403	10,847	(17,556)	-
Student government	5,093	15,385	16,053	370	4,795
Unity project	200	-	-	-	200
Panther baseball	260	1,532	3,062	2,500	1,230
MS panther football	1,084	-	932	-	152
MS student government	5,816	9,032	8,343	-	6,505
Cheerleaders	65	-	-	-	65
HS weight room	837	-	630	-	207
MS marching panthers	4,119	15,314	15,827	(159)	3,447
Entrepreneur	876	-	-	-	876
Panther desktop publishing	101	5,463	4,222	-	1,342
Special olympics	1,964	500	120	-	2,344
JDC	322	121	111	-	332
Panther boys soccer	-	2,583	2,571	195	207
Panther girls soccer	46	3,514	5,583	1,936	(87)
Thespians	4,691	1,671	1,326	(900)	4,136
IJAG	620	-	289	-	331
Diversity club	124	-	-	-	124
Panther peppers	8,436	13,157	13,045	(520)	8,028
Big sister/little sister	1,510	-	-	-	1,510
Spanish club	1	-	-	-	1
MS singers	4,200	2,951	1,503	(4,000)	1,648
Clearing account	-	54,958	56,017	1,059	-
Total	\$ 131,439	499,658	493,067	-	138,030

CRESTON 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	\$ 6,389,898	6,349,445	6,043,357	5,873,843	5,690,210	5,151,891	5,205,282	4,650,977	4,675,468	4,586,430
Tuition	787,780	527,400	725,932	685,794	589,692	779,123	846,712	531,819	417,718	544,102
Other	862,694	931,718	832,614	721,231	904,072	990,841	1,054,229	1,035,187	992,047	697,535
State sources	8,899,980	8,782,631	8,286,487	7,244,174	8,038,068	7,990,501	7,452,259	6,916,779	6,564,307	6,252,892
Federal sources	751,445	383,445	1,319,101	1,973,099	962,992	651,278	811,268	1,162,023	801,998	1,644,172
Total	<u>\$ 17,691,797</u>	<u>16,974,639</u>	<u>17,207,491</u>	<u>16,498,141</u>	<u>16,185,034</u>	<u>15,563,634</u>	<u>15,369,750</u>	<u>14,296,785</u>	<u>13,451,538</u>	<u>13,725,131</u>
Expenditures:										
Instruction:										
Regular	\$ 6,228,443	6,265,668	6,101,506	5,999,181	6,100,713	5,342,920	5,483,982	4,926,797	4,492,302	4,566,081
Special	2,425,295	2,251,495	1,798,482	1,855,851	1,890,125	2,059,834	2,130,654	1,719,109	1,689,582	2,434,811
Other	2,191,630	1,699,128	1,667,314	1,541,470	1,446,614	1,400,158	945,375	1,413,132	1,479,975	1,173,527
Support services:										
Student	460,803	388,698	377,289	355,840	347,350	342,721	326,932	331,017	318,548	264,642
Instructional staff	346,001	539,013	556,433	382,365	290,957	504,741	344,642	292,024	419,125	274,942
Administration	1,601,936	1,569,212	1,552,544	1,510,851	1,489,523	1,555,199	1,511,141	1,423,425	1,214,908	940,627
Operation and maintenance of plant	1,354,743	1,538,103	1,353,191	1,284,522	1,452,699	1,179,766	1,217,476	1,235,867	1,178,766	710,303
Transportation	575,657	587,162	529,542	558,706	535,600	610,722	520,583	561,262	355,322	359,042
Central support	-	-	-	-	-	-	-	-	-	105,806
Non-instructional programs:										
Food service operations	8,595	8,595	-	-	7,183	7,182	-	2,868	-	-
Capital outlay	3,809,909	429,960	1,175,843	1,107,768	135,130	653,336	621,617	1,376,643	2,746,755	10,856,929
Long-term debt:										
Principal	2,385,000	8,025,000	760,000	725,000	690,000	660,000	635,000	610,000	460,000	445,000
Interest and fiscal charges	285,998	631,145	615,335	540,742	570,143	601,483	625,658	647,865	673,912	644,876
Other expenditures:										
AEA flow-through	537,951	504,339	566,249	562,973	508,699	493,874	465,028	431,257	421,173	421,480
Total	<u>\$ 22,211,961</u>	<u>24,437,518</u>	<u>17,053,728</u>	<u>16,425,269</u>	<u>15,464,736</u>	<u>15,411,936</u>	<u>14,828,088</u>	<u>14,971,266</u>	<u>15,450,368</u>	<u>23,198,066</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	\$ 150,162
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	401,757 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 13	7,716
			559,635
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	261,670
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-GC	40,259
TITLE I SCHOOLS IN NEED OF ASSISTANCE (SINA)	84.010	FY 13	19,980
			321,909
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 12	76,397
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 13	78,047
			154,444
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 13	9,341
GREEN HILLS AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 13	84,481
SOUTHWESTERN COMMUNITY COLLEGE:			
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 13	17,389
DEPARTMENT OF HOMELAND SECURITY:			
IOWA HOMELAND SECURITY AND EMERGENCY MANAGEMENT:			
HAZARD MITIGATION GRANT	97.039	FY 13	72,175
TOTAL			\$ 1,219,374

* - includes \$35,979 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Telephone (641) 792-1910

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

To the Board of Education of Creston 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 Creston 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 May 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Creston 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 Creston Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Creston Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified 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 deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 and II-B-13 to be material weaknesses.

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 II of the accompanying Schedule of Findings and Questioned Costs as items II-C-13 through II-F-13 to be significant deficiencies.

Compliance and Other Matters

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

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

Creston Community School District's Responses to Findings

Creston Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Creston Community School District's responses were not subjected to the auditing procedures applied in the audit or 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 Creston Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

May 26, 2014
Newton, Iowa

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**Independent Auditor's Report on Compliance
for Each Major Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133**

To the Board of Education of Creston Community School District:

Report on Compliance for Each Major Federal Program

We have audited Creston Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Creston Community School District's major federal programs for the year ended June 30, 2013. Creston Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Creston Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Creston Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each federal program. However, our audit does not provide a legal determination on Creston Community School District's compliance.

Opinion on Each Major Federal Program

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

Members American Institute & Iowa Society of Certified Public Accountants

Report on Internal Control Over Compliance

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

May 26, 2014
Newton, Iowa

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

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

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

(g) Major program was as follows:

School Nutrition Cluster Programs:

- CFDA Number 10.553 - School Breakfast Program
- CFDA Number 10.555 - National School Lunch Program
- CFDA Number 10.556 - Summer Food Service Program for Children

Title I Individual Programs:

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

- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Creston Community School District qualified as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas for the District.

- 1) Receipts - collecting, recording, journalizing, posting and reconciling.
- 2) Inventories - ordering, receiving, issuing and storing.
- 3) Capital assets - purchasing, recording and reconciling.
- 4) Wire transfers - processing and approving.
- 5) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 6) Transfers - preparing and approving.
- 7) Financial reporting - preparing, reconciling and approving.

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

Response - The District continues to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response acknowledged.

II-B-13 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited Inc. This training helps in providing instruction as well as promotes networking of other accounting personnel.

Necessary adjustments to be made for proper recognition of amounts of receivables and payables were not being completed accurately. Adjustments for capital asset additions and deletions were not completed by the District until after the District's Certified Annual Report had been filed with the Iowa Department of Education.

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

Response - The District will have a new business manager as of July, 1, 2014. The District anticipates that with the change in business manager that the instances mentioned previously in this comment will no longer be an issue.

Conclusion - Response accepted.

II-C-13 Receipting Process - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting only after the event or fundraising drive is completed. When the money is turned into the office, the sponsors of the student organizations appear to not be maintaining supporting documentation for the money collected that could later be used for reconciliation purposes.

Recommendation - The District should review receipting procedures in place. When sponsors submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts.

Response - The District will have a new business manager as of July, 1, 2014. The District anticipates that with the change in business manager that the instances mentioned previously in this comment will no longer be an issue.

Conclusion - Response accepted.

II-D-13 Tuition Billing Reconciliation - We noted during our audit that the District had not billed Orient-Macksburg Community School District \$129,426.00 for open enrolled students and Prescott Community School District \$60,181.80 for special education tuition. Subsequently, the District did not accrue the payables for these two items on the financial statements, giving the appearance that the District does not reconcile the number of open enrolled students and special education students to actual billings sent to each district. For this audit report, the payables have been shown on the financial statements due to materiality.

Recommendation - In completing the Certified Annual Report, the District needs to reconcile student open enrollments and special education billings sent to ensure that correct amounts are recorded as payable on the District's financial statements. At a minimum, the District should accrue a reasonable estimate of the payable amount based on the number of students open enrolled and the cost per student as set by the Iowa Department of Education.

Response - Bills have been sent to the respective school districts. The District has sent reminders to Orient-Macksburg for payment of the open enrolled students but still has not received payment. Creston and Prescott have the same business manager and the Prescott bill will be received by the end of May.

Conclusion – Response accepted.

II-E-13 AEA Billing - According to the 28E agreement(See Note 10) the District has with Green Hills Area Education Agency(AEA), the District is to provide the AEA with daily custodial services and separately meter electric usage and bill the AEA on a monthly basis. At the time of our audit, it appears that the District has not billed the AEA for the entire year for custodial services or electrical use.

Recommendation - The District should determine the amount to bill the AEA for custodial services and electrical usage and collect that amount from the AEA.

Response - The District is in the process of calculating the bill for custodial services and electrical use for the AEA and will be resolved by the end of June 2014.

Conclusion - Response accepted.

II-F-13 Gate Admissions - We noted during our audit that the District utilizes pre-numbered tickets for all event admissions. However, it appeared that ticket takers responsible for cash collections at the gate were not always reconciling pre-numbered tickets to cash collected and not signing off on the reconciliation before giving custody of the change box to the on-duty administrator.

Recommendation - The District should require that reconciliation procedures set up by the District be performed after each event that admissions are charged.

The exchange in custody of the change box from the ticket takers to the on-duty administrator with no reconciliation procedures being performed by the ticket takers constitutes a breakdown in control procedures. The District should review internal control procedures established for handling cash for all activity events and communicate the procedures to the individuals involved.

At the end of the event, cash should be counted and reconciled by two or more individuals (usually the ticket takers) to pre-numbered tickets sold including the amount of the beginning cash. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash. The cash and change box should then be turned into the Athletic Director or designee responsible for the accounting function at the event.

Response - The District will have a new business manager as of July, 1, 2014. Gate admission procedures will be reviewed and changes will be made to comply with the auditor recommendation.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - District disbursements for the year ended June 30, 2013, did not exceed budgeted amounts.

IV-B-13 Questionable Disbursements - We noted during our audit that the District purchased embroidered clothing for athletic coaches from the Student Activity Fund. Through conversation with District officials, it was indicated that the clothing purchased was intended to be part of a specialized uniform for "Coaches vs Cancer" event and other events held by the District. It was also stated that the coaches retain custody of the clothing after the event.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are “public funds” the District must determine the propriety and document the public purpose and public benefit to be derived.

If the intent of the clothing purchase is to be part of a specialized uniform for an event, it would appear inappropriate that the coaches retain possession of the clothing after the event since this gives the appearance that the clothing was purchased for the coaches for personal use. The District should request the return of the clothing after the event and issue the clothing to the coaches when another specialized event is to be held where the uniform is required. If the coaches keep the clothing, then the cost of the clothing should be included on the coaches’ W-2.

The District should refrain from purchasing clothing for employees. The purchase of clothing for employees establishes a precedent which may be difficult to justify and/or administer fairly and consistently among other employees and student groups. A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing to District employees in lieu of using public funds.

Response - The District will comply with the auditor recommendation.

Conclusion - Response accepted.

IV-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.

IV-D-13 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-13 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

We noted in the September 17, 2012 board minutes the District named Iowa State Savings bank as an official depository of the District without approving a maximum amount to be kept at the bank. The District also has deposits at Banker’s Trust for their investments in the Iowa Schools Joint Investment Trust General Obligations Portfolio where Banker’s Trust was not named as a depository with a maximum amount.

According to Chapter 12C.2 of the Code of Iowa, “the approval of a financial institution as a depository of public funds for a public body shall be by written resolution or order that shall be entered of record in the minutes of the approving board, and that shall distinctly name each depository approved, and specify the maximum amount that may be kept on deposit in each depository.

Recommendation - The District should review Chapter 12C.2 of the Code of Iowa. Each financial institution that holds District deposits should be approved with a maximum depository amount by the Board of Directors and noted in the board minutes annually to be in compliance with Chapter 12C.2 of the Code of Iowa.

Response - Changes will be made to comply with the auditor recommendation.

Conclusion - Response accepted.

IV-G-13 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

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

IV-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-13 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely and we noted significant deficiencies in the amounts reported. The following caused material deficiencies in the amounts reported:

The proper amounts to be accrued for receivables and payables were not completed accurately. Adjustments for capital asset additions and deletions were not completed by the District until after the District's Certified Annual Report had been filed with the Iowa Department of Education.

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

Response - The District will have a new business manager as of July, 1, 2014. The District anticipates that with the change in business manager that filing the CAR timely will no longer be an issue. Subsequent adjustments were made by the District to correct the material deficiencies.

Conclusion - Response accepted.

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

IV-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 revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2013 audit:

Beginning balance		1,409,844
Revenues:		
Sales tax revenues	\$ 1,184,539	
Other local revenues	1,513	
State revenues	9,623	
Federal revenues	72,175	1,267,850
		<u>2,677,694</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 1,462,247	
Transfers to other funds:		
Debt service fund	260,000	1,722,247
		<u>1,722,247</u>
Ending balance		<u>\$ 955,447</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	\$ 0.74802	\$ 260,000

IV-M-13 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

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

Response - The District will follow the auditor recommendation.

Conclusion - Response accepted.

IV-N-13 Alliant Branching Out Grant(Trees Forever) - We noted during our audit that the District's FFA received a Trees Forever Grant and recorded the proceeds from the grant in the Student Activity Fund. The following concerns arose during our audit relating to this grant:

- The District office was unable to provide a copy of the report filed to receive Trees Forever funds. It appears that all pertinent information related to this grant was not retained per District procedures, but rather by the grant writer who is a Board Member of the District. Chapter 291.6 of the Code of Iowa requires the District's Board Secretary to preserve and file all copies of pertinent paperwork related to the business of the District.
- In subsequent conversation with representatives of Trees Forever, we were told that the District had filed the proper reports with them claiming that all funds received by the District had been spent; however the District's general ledger shows an unspent balance of \$259.76. It would appear that expenditures for the grant are not being reported using the amounts from the District's general ledger.

- We noted that checks received from Trees Forever for \$10,000 and \$7,700 were not deposited by the District until months after the grant writer had received the checks. We were unable to determine if the check was initially sent to the grant writer or the District and what caused the delay in depositing the check received. The delay in depositing receipts appears to identify a significant breakdown of controls relating to the receipting and depositing of District revenues.

Recommendation - The Student Activity Fund is not the proper fund for recording revenues and expenditures related to the Trees Forever grant. According to the chart of account coding from the Iowa Department of Education, revenues and expenditures for the Trees Forever grant has a 3288 project code and should be recorded in either the Capital Projects: Physical Plant and Equipment Levy Fund or the Capital Projects: Statewide Sales Services and Use Tax Fund. Remaining funds for the Trees Forever grant in the Student Activity Fund should be transferred to either of the two funds mentioned previously.

Response - The District will have a new business manager as of July, 1, 2014. The necessary transfer will be made for remaining Trees Forever funding and proper account coding will be used in the future.

Conclusion - Response accepted.

Recommendation - The District should request that the Trees Forever grant writer(Board Member) provide copies of paperwork concerning the Trees Forever grant to the District to be in compliance with Chapter 291.6 of the Code of Iowa. In addition, the District should review the record retention requirement per Chapter 291.6 of the Code of Iowa to ensure records are maintained and retained by the District.

Response - The District has requested that the Board Member provide all copies of Trees Forever paperwork for proper coding.

Conclusion - Response accepted.

Recommendation - The District should report grant expenditures according to what is recorded on the District's general ledger. The District may need to file an amended report for the expenditures reported on the grant. In addition, the District should review procedures in place to ensure all invoices related to the grant are properly coded.

Response - Proper recoding of the grant will be completed.

Conclusion - Response accepted.

Recommendation - The District should review receipting procedures in place with regard to depositing revenue. The District should adopt procedures that require funds received be deposited in a timely manner.

Response - The District has contacted Trees Forever and requested that anymore payments for the grant be sent directly to the business office for timely recording and depositing.

Conclusion - Response accepted.