

DENISON 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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Denison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Rod Bradley	President	2013
Kris Rowedder	Vice President	2015
Larry Andersen	Board Member	2013
Les Lewis	Board Member	2013
Mark Johnson	Board Member	2015
School Officials		
Mike Pardun	Superintendent	2013
Scott Larson	Business Manager	2013
Ruth Frazier	District Secretary	2013
Terry Prickett	District Treasurer	2013
Mundt, Franck and Schumacher	Attorney	2013

Denison 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 Denison 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 Denison Community School District, Denison, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Denison 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 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of 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 Denison 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 eight years ended June 30, 2012 while another auditor previously audited the financial statements for the year ended June 30, 2004, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 10, 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 of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2014 on our consideration of Denison 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 Denison Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

January 31, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Denison Community School District provides the Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$19,731,849 in fiscal 2012 to \$20,802,278 in fiscal 2013, while General Fund expenditures increased from \$19,560,059 in fiscal 2012 to \$21,130,105 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from \$2,844,344 in fiscal 2012 to a balance of \$2,516,517 in fiscal 2013, which is an 11.5% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local sources in fiscal 2013. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.
- The District's solvency ratio decreased as compared to fiscal 2012. At June 30, 2012 the District's solvency ratio was 13.99% as compared to 8.16% at June 30, 2013.

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 Denison 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 Denison 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 Denison Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary Information provides detailed information about the nonmajor 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.

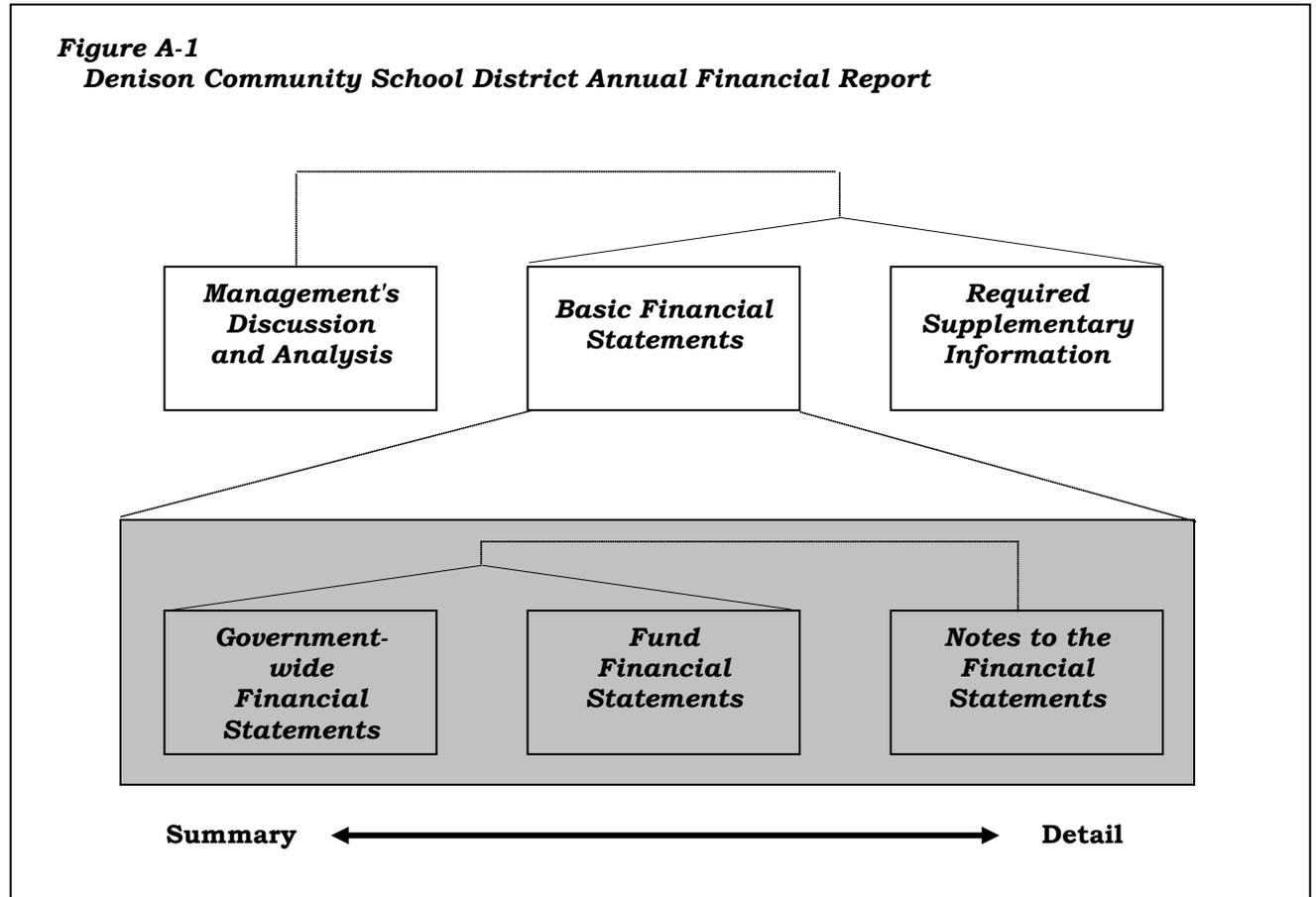


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Position

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 16,589,826	13,133,669	575,164	433,928	17,164,990	13,567,597	26.51%
Capital assets	20,295,308	20,569,602	369,696	343,742	20,665,004	20,913,344	-1.19%
Total assets	36,885,134	33,703,271	944,860	777,670	37,829,994	34,480,941	9.71%
Long-term obligations	12,457,348	10,083,736	638	610	12,457,986	10,084,346	23.54%
Other liabilities	7,220,133	6,955,940	17,893	79,957	7,238,026	7,035,897	2.87%
Total liabilities	19,677,481	17,039,676	18,531	80,567	19,696,012	17,120,243	15.05%
Net position:							
Invested in capital assets, net of related debt	11,165,308	10,644,602	369,696	343,742	11,535,004	10,988,344	4.97%
Restricted	3,948,521	3,099,742	-	-	3,948,521	3,099,742	27.38%
Unrestricted	2,093,824	2,919,251	556,633	353,361	2,650,457	3,272,612	-19.01%
Total net position	\$ 17,207,653	16,663,595	926,329	697,103	18,133,982	17,360,698	4.45%

The District's total net position increased by 4.45%, or \$773,284, over the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased 27.38%, or \$848,779, over the prior year. This increase in restricted net position is mainly attributable to the increase in the Debt Service Fund balance.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$622,155, or 19.01%. The decrease in unrestricted net position is mainly attributable to the decrease in 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		Business type		Total		Total Change 2012-13
	Activities		Activities		School District		
	2013	2012	2013	2012	2013	2012	
Program revenues:							
Charges for services	\$ 1,958,133	1,956,991	469,534	375,075	2,427,667	2,332,066	4.10%
Operating grants and contributions and restricted interest	2,275,004	2,049,327	1,005,434	955,373	3,280,438	3,004,700	9.18%
Capital grants and contributions and restricted interest	100,000	-	-	-	100,000	-	100.00%
General revenues:							
Property tax	4,568,264	4,340,454	-	-	4,568,264	4,340,454	5.25%
Income surtax	713,420	598,113	-	-	713,420	598,113	19.28%
Statewide sales, services and use tax	1,667,755	1,488,594	-	-	1,667,755	1,488,594	12.04%
Unrestricted state grants	12,803,017	12,089,017	-	-	12,803,017	12,089,017	5.91%
Nonspecific program federal grants	-	5,991	-	-	-	5,991	-100.00%
Unrestricted investment earnings	13,547	13,724	543	610	14,090	14,334	-1.70%
Other	18,465	136,026	5,928	3,136	24,393	139,162	-82.47%
Transfer	(100,000)	-	100,000	-	-	-	100.00%
Total revenues	24,017,605	22,678,237	1,581,439	1,334,194	25,599,044	24,012,431	6.61%
Program expenses:							
Governmental activities:							
Instructional	15,267,461	13,547,438	-	-	15,267,461	13,547,438	12.70%
Support services	6,439,981	6,026,886	-	-	6,439,981	6,026,886	6.85%
Non-instructional programs	80	-	1,352,213	1,249,787	1,352,293	1,249,787	8.20%
Other expenses	1,766,025	1,743,642	-	-	1,766,025	1,743,642	1.28%
Total expenses	23,473,547	21,317,966	1,352,213	1,249,787	24,825,760	22,567,753	10.01%
Changes in net position	544,058	1,360,271	229,226	84,407	773,284	1,444,678	-46.47%
Net position beginning of year	16,663,595	15,303,324	697,103	612,696	17,360,698	15,916,020	9.08%
Net position end of year	\$ 17,207,653	16,663,595	926,329	697,103	18,133,982	17,360,698	4.45%

In fiscal year 2013, property tax, income surtax and unrestricted state grants account for 75.30% of governmental activities revenue while charges for service and sales and operating grants, contributions and restricted interest accounted for 93.27% of business type activities revenue.

The District's total revenues were approximately \$25.60 million of which approximately \$24.02 million was for governmental activities and approximately \$1.58 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.61% increase in revenues and an 10.01% increase in expenses. Property tax increased \$227,810 and statewide sales, services and use tax increased \$179,161 to fund increases in expenditures. The increase in expenses related to increases in negotiated salary and benefits

Governmental Activities

Revenues for governmental activities were \$24,117,605 and expenses were \$23,573,547 for the year ended June 30, 2013.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 15,267,461	13,547,438	12.70%	11,888,754	10,611,020	12.04%
Support services	6,439,981	6,026,886	6.85%	6,307,437	5,746,466	9.76%
Non-instructional	80	-	100.00%	80	-	100.00%
Other expenses	1,766,025	1,743,642	1.28%	944,139	954,162	-1.05%
Totals	<u>\$ 23,473,547</u>	<u>21,317,966</u>	<u>10.11%</u>	<u>19,140,410</u>	<u>17,311,648</u>	<u>10.56%</u>

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$1,958,133.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,375,004.
- The net cost of governmental activities was financed with \$4,568,264 in property tax, \$713,420 in income surtax, \$1,667,755 in statewide sales, services and use tax, \$12,803,017 in unrestricted state grants, \$13,547 in interest income and \$18,465 in other general revenues.

Business type Activities

Revenues of the District's business type activity were \$1,581,439 and expenses were \$1,352,213. The District's business type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$8,896,856, above last year's ending fund balances of \$5,756,445. The primary reason for the increase in combined fund balances is because of the increase in fund balance in the Debt Service Fund.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. The increase in salaries and benefits is one of the reasons for the increase in expenditures. Revenues in the General Fund increased by \$1,070,429 and expenses increased by \$1,570,046. The General Fund balance decreased by \$327,827 to a balance of \$2,516,517.

- The Debt Service Fund balance increased from \$1,518,864 at June 30, 2012 to a balance of \$4,677,511 at June 30, 2013. This increase was primarily a result of the District issuing crossover refunding bonds during the fiscal year.

Proprietary Fund Highlights

The School Nutrition Fund's increase in revenues was enough to offset the continued increase in food costs, and salaries and benefits. Overall, net position increased from \$697,103 at June 30, 2012 to \$926,329 at June 30, 2013, representing an increase of 32.88%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$383,158 more than budgeted revenues, a variance of 1.52%. The most significant variances resulted from the District receiving more in local sources than what was originally anticipated.

Initially, total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$20,665,004, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.19% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$818,247.

The original cost of the District's capital assets was \$30,057,747. Governmental funds account for \$29,406,265 with the remainder of \$651,482 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$51,900 at June 30, 2012 as compared to \$0 at June 30, 2013. During the year ended June 30, 2013, the construction of the air conditioning at the high school was completed.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 191,680	183,780	-	-	191,680	183,780	4.30%
Construction in progress	-	51,900	-	-	-	51,900	-100.00%
Buildings	18,548,937	18,768,448	-	-	18,548,937	18,768,448	-1.17%
Land improvements	917,444	982,222	-	-	917,444	982,222	-6.60%
Machinery and equipment	637,247	583,252	369,696	343,742	1,006,943	926,994	8.62%
Total	\$ 20,295,308	20,569,602	369,696	343,742	20,665,004	20,913,344	-1.19%

Long-Term Debt

At June 30, 2013, the District had \$12,457,986 in general obligation bonds, revenue bonds and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$6,865,000 at June 30, 2013.

The District also had outstanding Revenue Bonds payable from the Capital Projects Fund of \$5,425,000 at June 30, 2013.

The District has a Net OPEB liability of \$167,986 as of June 30, 2013. Governmental activities account for \$167,348 while business type activities account for \$638.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
General obligation bonds	\$ 6,865,000	3,915,000	-	-	6,865,000	3,915,000	75.35%
Revenue bonds	5,425,000	6,010,000	-	-	5,425,000	6,010,000	-9.73%
Net OPEB liability	167,348	158,736	638	610	167,986	159,346	5.42%
Total	\$ 12,457,348	10,083,736	638	610	12,457,986	10,084,346	23.54%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- It is a concern of this District, as well as every District in the state, that certain costs will continue to increase, such as those associated with negotiated agreements with unions, i.e. salaries and benefits. The District continues to approve an Early Retirement Plan in an effort to achieve costs savings through higher paid teachers retiring early and hiring less experienced teachers as replacements that typically will be paid less, thus resulting in cost savings to the General Fund. 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 District's certified enrollment in October of 2013, showed a decrease of -21.6 students. Increasing or at least maintaining enrollment in upcoming years will be necessary to help maintain the District's financial health.
- The District is concerned with speculation that the Tyson meat processing plant here in Denison may close. Obviously this would have an adverse affect on our enrollment.
- The Iowa Legislature set the allowable growth rate for the 2013-14 fiscal year at 4%. The Iowa Legislature has not yet set the allowable growth rate for the 2014-15 fiscal year.
- The federally mandated Affordable Care Act will add health care expenditures to the District that we currently do not have. Renewal rates are being affected by these mandates as well as the district's contribution towards various employees groups' health insurance may change as well.

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 Scott Larson, Business Manager, Denison Community School District, 819 North 16th Street, Denison, Iowa, 51442.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Securities on deposit with escrow agent	\$ 3,160,000	-	3,160,000
Other	6,326,800	560,554	6,887,354
Receivables:			
Property tax:			
Delinquent	49,896	-	49,896
Succeeding year	4,806,502	-	4,806,502
Income surtax	615,865	-	615,865
Accounts	14,519	5,767	20,286
Due from other governments	1,601,549	-	1,601,549
Inventories	14,695	8,843	23,538
Capital assets, net of accumulated depreciation	20,295,308	369,696	20,665,004
TOTAL ASSETS	36,885,134	944,860	37,829,994
LIABILITIES			
Accounts payable	337,265	5,215	342,480
Salaries and benefits payable	1,841,273	4,947	1,846,220
Accrued interest payable	143,028	-	143,028
Deferred revenue:			
Succeeding year property tax	4,806,502	-	4,806,502
Other	92,065	-	92,065
Unearned revenue	-	7,731	7,731
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	220,000	-	220,000
Revenue bonds payable	600,000	-	600,000
Portion due after one year:			
General obligation bonds payable	6,645,000	-	6,645,000
Revenue bonds payable	4,825,000	-	4,825,000
Net OPEB liability	167,348	638	167,986
TOTAL LIABILITIES	19,677,481	18,531	19,696,012
NET POSITION			
Invested in capital assets, net of related debt	11,165,308	369,696	11,535,004
Restricted for:			
Categorical funding	871,217	-	871,217
Management levy purposes	386,213	-	386,213
Student activities	182,649	-	182,649
School infrastructure	984,379	-	984,379
Physical plant and equipment	149,587	-	149,587
Debt service	1,374,483	-	1,374,483
Unrestricted	2,093,817	556,633	2,650,450
TOTAL NET POSITION	\$ 17,207,653	926,329	18,133,982

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges	Contributions	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	and Restricted Interest	and Restricted Interest			
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 9,028,774	1,024,091	126,476	-	(7,878,207)	-	(7,878,207)
Special	2,503,612	285,383	135,564	-	(2,082,665)	-	(2,082,665)
Other	3,735,075	648,659	1,158,534	-	(1,927,882)	-	(1,927,882)
	<u>15,267,461</u>	<u>1,958,133</u>	<u>1,420,574</u>	<u>-</u>	<u>(11,888,754)</u>	<u>-</u>	<u>(11,888,754)</u>
Support services:							
Student	654,981	-	8,562	-	(646,419)	-	(646,419)
Instructional staff	922,989	-	976	-	(922,013)	-	(922,013)
Administration	1,781,109	-	5,841	-	(1,775,268)	-	(1,775,268)
Operation and maintenance of plant	2,059,168	-	-	100,000	(1,959,168)	-	(1,959,168)
Transportation	1,021,734	-	17,165	-	(1,004,569)	-	(1,004,569)
	<u>6,439,981</u>	<u>-</u>	<u>32,544</u>	<u>100,000</u>	<u>(6,307,437)</u>	<u>-</u>	<u>(6,307,437)</u>
Non-instructional programs:							
Community service operations	80	-	-	-	(80)	-	(80)
Long-term debt interest	392,721	-	-	-	(392,721)	-	(392,721)
Other expenses:							
AEA flowthrough	821,886	-	821,886	-	-	-	-
Depreciation (unallocated)*	551,418	-	-	-	(551,418)	-	(551,418)
	<u>1,373,304</u>	<u>-</u>	<u>821,886</u>	<u>-</u>	<u>(551,418)</u>	<u>-</u>	<u>(551,418)</u>
Total governmental activities	23,473,547	1,958,133	2,275,004	100,000	(19,140,410)	-	(19,140,410)
Business Type activities:							
Non-instructional programs:							
Nutrition services	1,352,213	469,534	1,005,434	-	-	122,755	122,755
Total	\$ 24,825,760	2,427,667	3,280,438	100,000	(19,140,410)	122,755	(19,017,655)
General Revenues:							
Property tax levied for:							
General purposes					\$ 4,079,141	-	4,079,141
Debt service					373,056	-	373,056
Capital outlay					116,067	-	116,067
Income surtax					713,420	-	713,420
Statewide sales, services and use tax					1,667,755	-	1,667,755
Unrestricted state grants					12,803,017	-	12,803,017
Unrestricted investment earnings					13,547	543	14,090
Other					18,465	5,928	24,393
Transfers					(100,000)	100,000	-
Total general revenues					<u>19,684,468</u>	<u>106,471</u>	<u>19,790,939</u>
Changes in net position					544,058	229,226	773,284
Net position beginning of year					<u>16,663,595</u>	<u>697,103</u>	<u>17,360,698</u>
Net position end of year					<u>\$ 17,207,653</u>	<u>926,329</u>	<u>18,133,982</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Debt Service	Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
U.S. Treasury Securities on deposit with escrow agent	\$ -	3,160,000	-	3,160,000
Other	3,877,293	1,513,415	936,092	6,326,800
Receivables:				
Property tax:				
Delinquent	40,599	4,096	5,201	49,896
Succeeding year	3,950,475	374,069	481,958	4,806,502
Income surtax	615,865	-	-	615,865
Accounts	937	-	13,582	14,519
Due from other funds	-	-	35,818	35,818
Due from other governments	851,114	-	750,435	1,601,549
Inventories	14,695	-	-	14,695
TOTAL ASSETS	\$ 9,350,978	5,051,580	2,223,086	16,625,644
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 35,818	-	-	35,818
Accounts payable	298,965	-	38,300	337,265
Salaries and benefits payable	1,841,273	-	-	1,841,273
Deferred revenue:				
Succeeding year property tax	3,950,475	374,069	481,958	4,806,502
Income surtax	615,865	-	-	615,865
Other	92,065	-	-	92,065
Total liabilities	6,834,461	374,069	520,258	7,728,788
Fund balances:				
Restricted for:				
Nonspendable	14,695	-	-	14,695
Categorical funding	871,217	-	-	871,217
Management levy purposes	-	-	386,213	386,213
Student activities	-	-	182,649	182,649
School infrastructure	-	-	984,379	984,379
Physical plant and equipment	-	-	149,587	149,587
Debt service	-	4,677,511	-	4,677,511
Unassigned	1,630,605	-	-	1,630,605
Total fund balances	2,516,517	4,677,511	1,702,828	8,896,856
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,350,978	5,051,580	2,223,086	16,625,644

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON 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)	\$	8,896,856
 Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		20,295,308
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		615,865
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(143,028)
Long-term liabilities, including general obligation bonds payable, revenue bonds payable, and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(12,457,348)
		<hr/>
Net position of governmental activities(page 18)	\$	<u>17,207,653</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Debt Service	Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 4,381,610	373,056	2,144,717	6,899,383
Tuition	1,225,767	-	-	1,225,767
Other	100,427	2,900	661,051	764,378
Intermediate sources	21,921	-	-	21,921
State sources	13,900,512	184	239	13,900,935
Federal sources	1,155,165	-	100,000	1,255,165
Total revenues	<u>20,785,402</u>	<u>376,140</u>	<u>2,906,007</u>	<u>24,067,549</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	8,859,928	-	192,323	9,052,251
Special	2,502,128	-	-	2,502,128
Other	3,096,744	-	626,976	3,723,720
	<u>14,458,800</u>	<u>-</u>	<u>819,299</u>	<u>15,278,099</u>
Support services:				
Student	654,645	-	-	654,645
Instructional staff	837,463	-	83,225	920,688
Administration	1,776,278	-	13,677	1,789,955
Operation and maintenance of plant	1,727,006	-	191,696	1,918,702
Transportation	841,228	-	238,552	1,079,780
	<u>5,836,620</u>	<u>-</u>	<u>527,150</u>	<u>6,363,770</u>
Non-instructional programs:				
Community service operations	80	-	-	80
Capital outlay	-	-	462,660	462,660
Long-term debt:				
Principal	-	795,000	-	795,000
Interest and fiscal charges	-	394,218	-	394,218
	<u>-</u>	<u>1,189,218</u>	<u>-</u>	<u>1,189,218</u>
Other expenditures:				
AEA flowthrough	821,886	-	-	821,886
Total expenditures	<u>21,117,386</u>	<u>1,189,218</u>	<u>1,809,109</u>	<u>24,115,713</u>
Excess(Deficiency) of revenues over(under) expenditures	(331,984)	(813,078)	1,096,898	(48,164)
Other financing sources(uses):				
Transfer in	-	800,026	12,719	812,745
Transfer out	(12,719)	-	(800,026)	(812,745)
Refunding bond issuance	-	3,160,000	-	3,160,000
Premium on revenue bond issuance	-	42,983	-	42,983
Discount on revenue bond issuance	-	(31,284)	-	(31,284)
Sale of capital assets	16,876	-	-	16,876
Total other financing sources(uses)	<u>4,157</u>	<u>3,971,725</u>	<u>(787,307)</u>	<u>3,188,575</u>
Change in fund balance	(327,827)	3,158,647	309,591	3,140,411
Fund balance beginning of year	<u>2,844,344</u>	<u>1,518,864</u>	<u>1,393,237</u>	<u>5,756,445</u>
Fund balance end of year	<u>\$ 2,516,517</u>	<u>4,677,511</u>	<u>1,702,828</u>	<u>8,896,856</u>

SEE NOTES TO FINANCIAL STATEMENTS.

DENISON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds(page 22) \$ 3,140,411

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

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

Expenditures for capital assets	\$ 265,060	
Depreciation expense	(539,354)	(274,294)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Issued	(3,160,000)	
Repaid	795,000	(2,365,000)

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.

1,497

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

50,056

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.

Other postemployment benefits		(8,612)

Changes in net position of governmental activities(page 19) \$ 544,058

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	\$ 560,554
Accounts receivable	5,767
Inventories	8,843
Total current assets	575,164
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	369,696
Total non-current assets	369,696
TOTAL ASSETS	944,860
LIABILITIES	
Current liabilities:	
Accounts payable	5,215
Salaries and benefits payable	4,947
Unearned revenue	7,731
Total current liabilities	17,893
Long-term liabilities:	
Net OPEB liability	638
TOTAL LIABILITIES	18,531
NET ASSETS	
Invested in capital assets	369,696
Unrestricted	556,633
TOTAL NET ASSETS	\$ 926,329

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 469,534
Miscellaneous	5,928
TOTAL OPERATING REVENUES	475,462
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	443,211
Benefits	77,697
Services	16,822
Supplies	740,124
Other	313
Depreciation	45,158
TOTAL OPERATING EXPENSES	1,323,325
OPERATING LOSS	(847,863)
NON-OPERATING REVENUES(EXPENSES):	
Interest	543
State sources	12,367
Federal sources	993,067
Loss on disposal	(28,888)
TOTAL NON-OPERATING REVENUES(EXPENSES)	977,089
Change in net assets before other financing sources	129,226
Other financing sources:	
Capital contribution	100,000
Change in net position	229,226
Net position beginning of year	697,103
Net position end of year	\$ 926,329

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 478,102
Cash received from miscellaneous operating activities	5,928
Cash payments to employees for services	(521,152)
Cash payments to suppliers for goods or services	(754,294)
Net cash used in operating activities	(791,416)
Cash flows from non-capital financing activities:	
State grants received	12,367
Federal grants received	924,006
Net cash provided by non-capital financing activities	936,373
Cash flows from investing activities:	
Interest on investments	543
Net increase in cash and cash equivalents	145,500
Cash and cash equivalents at beginning of year	415,054
Cash and cash equivalents at end of year	\$ 560,554
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (847,863)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	69,061
Depreciation	45,158
Increase in inventories	(2,151)
Decrease in accounts receivable	6,415
Decrease in accounts payable	(63,945)
Decrease in salaries and benefits payable	(272)
Increase in unearned revenue	2,153
Increase in other postemployment benefits	28
Net cash used in operating activities	\$ (791,416)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$69,061.

During the year ended June 30, 2013, the Nutrition Fund received contributed capital from the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$100,000.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarship</u>	
ASSETS		
Cash and pooled investments	\$ 55,534	9,377
TOTAL ASSETS	<u>55,534</u>	<u>9,377</u>
LIABILITIES		
Accounts payable	-	3,352
Due to other groups	-	6,025
TOTAL LIABILITIES	<u>-</u>	<u>9,377</u>
NET POSITION		
Restricted for scholarships	32,000	-
Unrestricted	23,534	-
TOTAL NET POSITION	<u>\$ 55,534</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust
	Scholarship
ADDITIONS:	
Local sources:	
Interest	\$ 551
Contributions	6,662
TOTAL ADDITIONS	7,213
DEDUCTIONS:	
Instruction:	
Other:	
Scholarships awarded	5,646
Change in net position	1,567
Net position beginning of year	53,967
Net position end of year	\$ 55,534

SEE NOTES TO FINANCIAL STATEMENTS.

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

(1) Summary of Significant Accounting Policies

The Denison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served primarily includes the Cities of Denison, Kiron and Deloit, Iowa, and the predominate agricultural territory of Crawford County and a small portion of rural Ida County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Denison 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 Denison 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 does 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 Ida and Crawford County Assessors' Board.

B. Basis of Presentation

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

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following 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 result when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

The District's also reports one major proprietary fund which is the Enterprise, School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid either restricted or unrestricted resources, the District's policy is generally to first apply the

expenditure toward restricted fund balance and then to less restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise 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	150,000
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 estimated useful lives:

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

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

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

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Position in the Proprietary Funds.

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

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

Nonspendable - Amounts that include inventory in the General Fund.

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

Unassigned - All amounts not included in other spendable or nonspendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures exceeded the amounts budgeted in the support services functional area.

(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 \$266 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates. At June 30, 2013, the District had investments in the U.S. Treasury Securities of \$3,160,000.

(3) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
Capital Projects: Physical Plant and Equipment Levy	General	\$ 15,834
Capital Projects: Statewide Sales, Services and Use Tax	General	19,984
Total		<u>\$ 35,818</u>

The General Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for moneys received from the Fire Life Safety Grant during fiscal 2010.

The General Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax Fund for moneys received from the Fire Life Safety Grant during fiscal 2010.

(4) Interfund Transfers

Transfers for the year ended June 30, 2013 are as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 800,026
Capital Projects: Statewide Sales, Services and Use Tax	General Fund	12,719
Total		<u>\$ 812,745</u>

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

The transfer from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund was to transfer money for computer purchases.

(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
Governmental activities:					
General Obligation Bonds	\$ 3,915,000	3,160,000	210,000	6,865,000	220,000
Revenue Bonds	6,010,000	-	585,000	5,425,000	600,000
Net OPEB liability	158,736	8,612	-	167,348	-
Total	<u>\$ 10,083,736</u>	<u>3,168,612</u>	<u>795,000</u>	<u>12,457,348</u>	<u>820,000</u>
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 610	28	-	638	-

General Obligation Bonds Payable

On March 13, 2013, the District issued \$3,160,000 of general obligation refunding bonds, with interest rates ranging from 3.85% to 4.13%, for a crossover refunding of a portion of the general obligation bonds issued May 1, 2006. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Treasury Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,015,000 principal of the refunded general obligation bonds when they become callable on May 1, 2016 and the interest from November 1, 2013 to and including May 1, 2016 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished. The economic benefit for this crossover refunding issuance is \$265,749.

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

Year Ending June 30,	Bond Issue of May 1, 2006			Bond Issue of March 13, 2013			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2014	4.25 % \$	220,000	153,596	4.25 % \$	-	62,241	220,000	215,837	435,837
2015	4.50	230,000	144,246	4.50	-	54,919	230,000	199,165	429,165
2016	5.00	240,000	133,896	5.00	-	54,919	240,000	188,815	428,815
2017	3.85	250,000	121,896	3.85	290,000	54,919	540,000	176,815	716,815
2018	3.90	260,000	112,271	3.90	300,000	49,119	560,000	161,390	721,390
2019-2023	3.95-4.10	1,470,000	398,996	3.95-4.10	1,565,000	166,481	3,035,000	565,477	3,600,477
2024-2026	4.13	1,035,000	79,200	4.13	1,005,000	38,737	2,040,000	117,937	2,157,937
Total		<u>\$ 3,705,000</u>	<u>1,144,101</u>		<u>\$ 3,160,000</u>	<u>481,335</u>	<u>6,865,000</u>	<u>1,625,436</u>	<u>8,490,436</u>

Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2010				Total
	Interest Rates	Principal	Interest	Interest	
2014	3.00 % \$	600,000	191,075	791,075	
2015	3.00	615,000	172,850	787,850	
2016	3.00	195,000	160,700	355,700	
2017	3.00	200,000	154,775	354,775	
2018	3.00	210,000	148,625	358,625	
2019-2023	3.20-4.00	1,175,000	629,425	1,804,425	
2024-2028	4.00-4.25	1,480,000	370,032	1,850,032	
2029-2030	4.50	950,000	54,025	1,004,025	
Total		<u>\$ 5,425,000</u>	<u>1,881,507</u>	<u>7,306,507</u>	

The District has pledged future statewide sales, services and use tax revenues to repay the \$6,585,000 bonds issued July 1, 2010. The bonds were issued for the purpose of defeasement of \$2,235,000 in principal of the May 1, 2006 bond issue as well as defray costs of renovations of the Broadway Elementary building and construction of a new bus barn. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 48 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$7,306,507. For the current year \$585,000 in principal and \$208,850 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,667,755.

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

- a) \$578,387 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Termination Benefit

The District offers a voluntary early retirement plan to any full-time District employee who is presently covered by the District's insurance program, is presently under contract, has been with the District for ten or more years, and who on July 1 of the retirement year is between the ages of fifty-five and sixty-four. Employees must complete an application which is required to be approved by the Board of Education. The District provides a minimum benefit of \$100 per month for the monthly premiums for single and family health and major medical insurance coverage. There is not a liability recorded for early retirement as it is factored as an explicit subsidy within the District Other Postemployment Liability.

(6) 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
Business type activities:				
Machinery and equipment	\$ 611,947	100,000	60,465	651,482
Less accumulated depreciation	268,205	45,158	31,577	281,786
Business type activities capital assets, net	<u>\$ 343,742</u>	<u>54,842</u>	<u>28,888</u>	<u>369,696</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 183,780	7,900	-	191,680
Construction in progress	51,900	227,534	279,434	-
Total capital assets not being depreciated	<u>235,680</u>	<u>235,434</u>	<u>279,434</u>	<u>191,680</u>
Capital assets being depreciated:				
Buildings	24,769,940	298,974	73,200	24,995,714
Land improvements	1,573,193	3,291	-	1,576,484
Machinery and equipment	2,562,392	275,666	195,671	2,642,387
Total capital assets being depreciated	<u>28,905,525</u>	<u>577,931</u>	<u>268,871</u>	<u>29,214,585</u>
Less accumulated depreciation for:				
Buildings	6,001,492	483,349	38,064	6,446,777
Land improvements	590,971	68,069	-	659,040
Machinery and equipment	1,979,140	221,671	195,671	2,005,140
Total accumulated depreciation	<u>8,571,603</u>	<u>773,089</u>	<u>233,735</u>	<u>9,110,957</u>
Total capital assets being depreciated, net	<u>20,333,922</u>	<u>(195,158)</u>	<u>35,136</u>	<u>20,103,628</u>
Governmental activities capital assets, net	<u>\$ 20,569,602</u>	<u>40,276</u>	<u>314,570</u>	<u>20,295,308</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 14,042
Other	10,976
Support services:	
Instructional staff	4,656
Administration	1,880
Operation and maintenance	31,062
Transportation	159,055
	<u>221,671</u>
Unallocated depreciation	<u>551,418</u>
Total governmental activities depreciation expense	<u>\$ 773,089</u>
Business type activities:	
Food services	<u>\$ 45,158</u>

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are

established by state statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$1,158,263, \$1,019,438 and \$836,383, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 185 active and 25 retired members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefits are provided through a fully-insured plan with United HealthCare-River Valley. Retirees under age 65 pay the same premium for the medical/ prescription drug benefit as active employees, which results in an implicit and explicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit. The District also offers early retirement benefits in the form of health insurance benefits resulting in an explicit rate subsidy to the 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	\$ 200,296
Interest on net OPEB obligation	7,171
Adjustment to annual required contribution	(6,359)
Annual OPEB cost (expense)	<u>201,108</u>
Contributions made	<u>(192,468)</u>
Increase in net OPEB obligation	8,640
Net OPEB obligation - beginning of year	<u>159,346</u>
Net OPEB obligation - end of year	<u><u>\$ 167,986</u></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:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 187,458	37.3%	\$ 368,777
2012	(8,431)	-2384.1%	159,346
2013	201,108	95.7%	167,986

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 \$2.184 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.184 million. The covered payroll (annual payroll of active employees covered by the plan) was \$10.596 million, and the ratio of the UAAL to the covered payroll was 20.6%. 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 unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a percentage each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, 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.

The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$821,886 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.

(11) Categorical Funding

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

Program	Amount
Limited english proficiency weighting	\$ 698,412
Talented and gifted	122,579
Teacher salary supplement	3,326
Statewide voluntary preschool	43,714
Destination graduation	3,186
Total	<u>\$ 871,217</u>

(12) Budget Over Expenditure

During the year ended June 30, 2013, expenditures in the support services functional area exceeded the amounts budgeted.

(13) Detailed Reconciliation of Governmental Fund Balances to Net Position

The following is the detailed reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position:

	Invested in Capital Assets	Debt Service	Unassigned/ Restricted Balances
Fund Balance (Exhibit C)	\$ -	4,677,511	1,630,605
Capital assets	20,295,308	-	-
Nonspendable adjustment	-	-	14,695
General obligation bond capitalized indebtedness	(3,705,000)	-	-
Revenue bond capitalized indebtedness	(5,425,000)	-	-
Escrow for crossover refunding bonds	-	(3,160,000)	-
Income surtax	-	-	615,865
Accrued interest payable	-	(143,028)	-
Net OPEB liability	-	-	(167,348)
Net position (Exhibit A)	<u>\$ 11,165,308</u>	<u>1,374,483</u>	<u>2,093,817</u>

REQUIRED SUPPLEMENTARY INFORMATION

DENISON 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 Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 8,889,528	476,005	9,365,533	8,810,230	8,810,230	555,303
Intermediate sources	21,921	-	21,921	20,000	20,000	1,921
State sources	13,900,935	12,367	13,913,302	14,252,600	14,252,600	(339,298)
Federal sources	1,255,165	993,067	2,248,232	2,083,000	2,083,000	165,232
Total revenues	24,067,549	1,481,439	25,548,988	25,165,830	25,165,830	383,158
Expenditures/Expenses:						
Instruction	15,278,099	-	15,278,099	15,372,000	15,372,000	93,901
Support services	6,363,770	-	6,363,770	6,264,000	6,264,000	(99,770)
Non-instructional programs	80	1,352,213	1,352,293	1,700,000	1,700,000	347,707
Other expenditures	2,473,764	-	2,473,764	2,745,602	2,745,602	271,838
Total expenditures/expenses	24,115,713	1,352,213	25,467,926	26,081,602	26,081,602	613,676
Excess(Deficiency) of revenues over(under) expenditures/expenses	(48,164)	129,226	81,062	(915,772)	(915,772)	996,834
Other financing sources, net	3,188,575	100,000	3,288,575	5,000	5,000	3,283,575
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	3,140,411	229,226	3,369,637	(910,772)	(910,772)	4,280,409
Balance beginning of year	5,756,445	697,103	6,453,548	5,558,349	5,558,349	895,199
Balance end of year	\$ 8,896,856	926,329	9,823,185	4,647,577	4,647,577	5,175,608

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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.

During the year ended June 30, 2013, expenditures in the support services functional area exceeded the amounts budgeted.

DENISON 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)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2008	\$ -	\$ 1,810	\$ 1,810	0.00 %	\$ 9,330	19.4 %
2011	July 1, 2008	-	1,810	1,810	0.00	8,837	20.5
2012	July 1, 2010	-	1,717	1,717	0.00	10,092	17.0
2013	July 1, 2012	-	2,184	2,184	0.00	10,596	20.6

See Note 8 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

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

	Special Revenue				
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Total
Assets					
Cash and pooled investments	\$ 382,276	180,767	563,043	373,049	936,092
Receivables:					
Property tax:					
Delinquent	3,937	-	3,937	1,264	5,201
Succeeding year	360,001	-	360,001	121,957	481,958
Accounts	-	13,582	13,582	-	13,582
Due from other funds	-	-	-	35,818	35,818
Due from other governments	-	-	-	750,435	750,435
Total Assets	\$ 746,214	194,349	940,563	1,282,523	2,223,086
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	11,700	11,700	26,600	38,300
Deferred revenue:					
Succeeding year property tax	360,001	-	360,001	121,957	481,958
Total Liabilities	360,001	11,700	371,701	148,557	520,258
Fund balances:					
Restricted for:					
Management levy purposes	386,213	-	386,213	-	386,213
Student activities	-	182,649	182,649	-	182,649
School infrastructure	-	-	-	984,379	984,379
Physical plant and equipment	-	-	-	149,587	149,587
Total fund balances	386,213	182,649	568,862	1,133,966	1,702,828
Total Liabilities and Fund Balances	\$ 746,214	194,349	940,563	1,282,523	2,223,086

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue				
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Total
REVENUES:					
Local sources:					
Local tax	\$ 360,895	-	360,895	1,783,822	2,144,717
Other	10,318	648,659	658,977	2,074	661,051
State sources	182	-	182	57	239
Federal sources	-	-	-	100,000	100,000
Total revenues	371,395	648,659	1,020,054	1,885,953	2,906,007
EXPENDITURES:					
Current:					
Instruction:					
Regular	79,516	-	79,516	112,807	192,323
Other	-	626,976	626,976	-	626,976
Support services:					
Instructional staff	-	-	-	83,225	83,225
Administration	12,852	-	12,852	825	13,677
Operation and maintenance of plant	172,464	-	172,464	19,232	191,696
Transportation	36,361	-	36,361	202,191	238,552
Capital outlay	-	-	-	462,660	462,660
Total expenditures	301,193	626,976	928,169	880,940	1,809,109
Excess of revenues over expenditures	70,202	21,683	91,885	1,005,013	1,096,898
Other financing sources(uses):					
Transfers in	-	-	-	12,719	12,719
Transfers out	-	-	-	(800,026)	(800,026)
Total other financing sources(uses)	-	-	-	(787,307)	(787,307)
Change in fund balances	70,202	21,683	91,885	217,706	309,591
Fund balances beginning of year	316,011	160,966	476,977	916,260	1,393,237
Fund balances end of year	\$ 386,213	182,649	568,862	1,133,966	1,702,828

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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	\$ 240,560	132,489	373,049
Receivables:			
Property tax:			
Delinquent	-	1,264	1,264
Succeeding year	-	121,957	121,957
Due from other funds	19,984	15,834	35,818
Due from other governments	750,435	-	750,435
TOTAL ASSETS	\$ 1,010,979	271,544	1,282,523
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 26,600	-	26,600
Deferred revenue:			
Succeeding year property tax	-	121,957	121,957
Total liabilities	26,600	121,957	148,557
Fund balances:			
Restricted for:			
School infrastructure	984,379	-	984,379
Physical plant and equipment	-	149,587	149,587
Total fund balances	984,379	149,587	1,133,966
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,010,979	271,544	1,282,523

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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	\$ 1,667,755	116,067	1,783,822
Other	1,770	304	2,074
State sources	-	57	57
Federal sources	100,000	-	100,000
Total revenues	<u>1,769,525</u>	<u>116,428</u>	<u>1,885,953</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	112,807	-	112,807
Support services:			
Instructional staff	-	83,225	83,225
Adminstration	825	-	825
Operation and maintenance of plant	19,232	-	19,232
Transportation	202,191	-	202,191
Capital outlay	454,760	7,900	462,660
Total expenditures	<u>789,815</u>	<u>91,125</u>	<u>880,940</u>
Excess of revenues over expenditures	979,710	25,303	1,005,013
Other financing sources(uses):			
Transfer in	12,719	-	12,719
Transfer out	(800,026)	-	(800,026)
Total other financing sources(uses)	<u>(787,307)</u>	<u>-</u>	<u>(787,307)</u>
Change in net position	192,403	25,303	217,706
Net position beginning of year	<u>791,976</u>	<u>124,284</u>	<u>916,260</u>
Net position end of year	<u>\$ 984,379</u>	<u>149,587</u>	<u>1,133,966</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 4,067	2,266	2,179	4,154
Drama rental	368	1,901	1,899	370
Vocal	401	20,865	21,232	34
MS band	878	5,403	5,479	802
Athletics	25,913	163,919	131,461	58,371
MS Juice	-	1,203	1,203	-
Cross country	132	3,146	3,273	5
Art club	622	1	-	623
Baseball club	9,515	26,704	24,609	11,610
Basketball club	3,603	8,093	10,899	797
Football club	7,530	14,615	16,416	5,729
World language club	332	1	-	333
Boys golf club	2,943	2,241	2,142	3,042
Girl golf club	306	420	553	173
Health career club	2,450	1,582	1,528	2,504
Industrial arts club	911	1	-	912
Softball club	410	6,138	5,730	818
Boys tennis club	305	31	58	278
Girls tennis club	1,083	2,397	2,231	1,249
Track club	5	177	182	-
Volleyball club	3,877	13,636	13,562	3,951
Wrestling club	680	3,343	3,522	501
Boys soccer	1,009	1,092	804	1,297
Fitness center	210	1	-	211
Girls soccer	1,911	3,080	3,327	1,664
National honor society	862	302	262	902
Activity ticket	-	12,423	12,423	-
Academic decathlon	100	100	147	53
Girls basketball	832	6,987	6,889	930
Business 2000	1,811	63	476	1,398
Cheerleaders	1,749	7,383	8,677	455
Concessions	2,018	61,536	62,551	1,003
Elementary activity	6,997	42,554	36,491	13,060
FCA	287	1	-	288
FFA	12,108	55,395	53,470	14,033
Bowling club	557	39	151	445
Insufficient checks	15	552	567	-
FCCLA	3,611	1,432	1,258	3,785
Interest	-	325	325	-
MS activity	6,323	37,041	36,517	6,847
Destination imagination	2,628	5	-	2,633

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS pop fund	1,878	5,149	7,027	-
Renaissance fun	-	400	400	-
Student ambassador	2,967	9,547	12,093	421
Student senate	21,008	29,141	32,048	18,101
Yearbook	-	2,655	2,655	-
Girls track	923	1,448	1,757	614
High school	792	1	-	793
Purple Pride	415	905	710	610
MS concessions	-	8,635	8,635	-
Mariachi Band	-	234	234	-
Musical	-	1,930	1,930	-
Forensics	-	4,198	4,198	-
Broadway elementary	5,964	24,393	19,484	10,873
Key club	4,341	3,722	5,282	2,781
Instrumental	5,107	38,550	43,657	-
Class of 2013	8,212	4,037	12,249	-
Class of 2014	-	5,320	2,124	3,196
Total	\$ 160,966	648,659	626,976	182,649

DENISON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 JUNE 30, 2013

	Private Purpose Trust - Scholarship Fund				
	Riggleman Scholarship	Anonymous Scholarship	Raun Scholarship	Selander Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 20,596	1,766	12,528	20,644	55,534
LIABILITIES	-	-	-	-	-
NET POSITION					
Restricted for scholarships	-	-	12,000	20,000	32,000
Unrestricted	20,596	1,766	528	644	23,534
TOTAL NET POSITION	\$ 20,596	1,766	12,528	20,644	55,534

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

DENISON COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust - Scholarship Fund					Total
	Riggleman Scholarship	Laces Foundation	Anonymous Scholarship	Raun Scholarship	Selander Scholarship	
ADDITIONS:						
Local sources:						
Interest	\$ 467	-	-	84	-	551
Contributions	1,538	-	4,266	396	462	6,662
TOTAL ADDITIONS	2,005	-	4,266	480	462	7,213
DEDUCTIONS:						
Instruction:						
Other:						
Scholarships awarded	2,482	164	2,700	-	300	5,646
Change in net position	(477)	(164)	1,566	480	162	1,567
Net position beginning of year	21,073	164	200	12,048	20,482	53,967
Net position end of year	\$ 20,596	-	1,766	12,528	20,644	55,534

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 7,358	48,908	46,889	9,377
Accounts receivable	638	-	638	-
TOTAL ASSETS	\$ 7,996	48,908	47,527	9,377
LIABILITIES				
Accounts payable	\$ 741	3,352	741	3,352
Due to other groups	7,255	45,556	46,786	6,025
TOTAL LIABILITIES	\$ 7,996	48,908	47,527	9,377

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DENISON 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	\$ 6,899,383	6,307,916	5,875,127	5,503,479	5,160,031	4,960,166	4,762,011	4,242,492	4,188,725	3,647,468
Tuition	1,225,767	1,341,712	971,269	1,030,918	1,048,663	1,051,805	1,089,459	949,792	970,408	1,176,857
Other	764,378	765,029	1,136,461	623,548	754,469	1,067,344	1,302,002	1,111,703	881,057	620,216
Intermediate sources	21,921	15,065	25,929	16,097	70,023	9,591	-	1,495	1,500	3,400
State sources	13,900,935	13,020,548	12,024,178	10,404,882	11,219,111	10,694,202	10,072,320	9,484,543	8,598,370	7,616,970
Federal sources	1,255,165	1,108,722	2,934,468	2,544,259	1,362,619	1,149,172	1,472,722	1,132,611	1,439,305	910,323
Total	\$ 24,067,549	22,558,992	22,967,432	20,123,183	19,614,916	18,932,280	18,698,514	16,922,636	16,079,365	13,975,234
Expenditures:										
Instruction:										
Regular	\$ 9,052,251	8,244,860	7,188,488	7,422,924	7,054,027	6,720,642	5,746,997	5,737,369	5,517,950	5,312,309
Special	2,502,128	2,422,224	2,074,679	2,045,282	2,116,784	2,049,794	1,797,185	1,876,874	2,271,519	1,742,179
Other	3,723,720	3,252,025	3,886,528	3,016,204	2,855,764	2,480,169	2,935,405	2,494,860	1,936,036	2,294,602
Support services:										
Student	654,645	693,105	601,621	583,261	561,680	578,550	497,592	499,623	434,464	410,391
Instructional staff	920,688	761,608	975,503	646,862	705,866	864,107	596,334	502,824	365,182	359,976
Administration	1,789,955	1,692,272	1,725,304	1,572,611	1,611,937	1,483,141	1,407,915	1,427,585	1,266,606	1,159,764
Operation and maintenance										
of plant	1,918,702	1,849,476	1,756,679	1,581,389	1,622,136	1,650,339	1,387,985	1,299,206	1,341,401	1,221,855
Transportation	1,079,780	1,066,428	741,042	786,589	729,187	823,859	730,200	706,862	671,070	687,517
Other support	-	-	-	-	-	-	-	-	-	16,244
Non-instructional programs	80	-	-	-	-	-	-	-	1,978	-
Other expenditures:										
Facilities acquisitions	462,660	591,842	4,686,821	677,074	749,239	4,012,528	6,584,913	1,564,374	970,744	201,172
Long-term debt:										
Principal	795,000	775,000	195,000	690,000	744,156	683,615	460,000	-	-	-
Interest and fiscal charges	394,218	399,271	343,446	297,096	333,643	350,465	315,641	97	-	-
AEA flow-through	821,886	789,480	813,046	780,684	673,787	632,819	600,363	573,992	533,042	499,208
Total	\$ 24,115,713	22,537,591	24,988,157	20,099,976	19,758,206	22,330,028	23,060,530	16,683,666	15,309,992	13,905,217

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	\$ 193,425
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	799,642 *
			<u>993,067</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-G	545,810
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1701-GC	53,664
TITLE I SCHOOLS IN NEED OF ASSISTANCE (SINA)	84.010	FY 13	39,835
			<u>639,309</u>
MIGRANT EDUCATION - STATE GRANT PROGRAM	84.011	1701-M	<u>125,060</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (FIRE LIFE SAFETY GRANT)	84.215	FY 13	<u>100,000</u>
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS (GEAR-UP)	84.334	FY 13	<u>22,845</u>
IMPROVING TEACHER QUALITY STATE GRANTS(TITLE IIA)	84.367	FY 13	<u>65,942</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VIA)	84.369	FY 13	<u>13,858</u>
AREA EDUCATION AGENCY:			
IOWA DEPARTMENT OF EDUCATION:			
SPECIAL EDUCATION GRANTS TO STATES(PART B)	84.027	FY 13	<u>125,405</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 13	<u>22,256</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS(TITLE III)	84.365	FY 13	<u>130,329</u>
TOTAL			<u>\$ 2,238,071</u>

* - Includes \$69,061 in non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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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 the Denison 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 Denison 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 January 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Denison 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 Denison Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Denison 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 deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 to be a material weakness.

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

Compliance and Other Matters

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

Denison Community School District's Responses to Findings

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

Purpose of this Report

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 31, 2014
Newton, Iowa

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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**Independent Auditor's Report on Compliance for Each Major Federal 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 Denison Community School District:

Report on Compliance for Each Major Federal Program

We have audited Denison 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 Denison Community School District's major federal programs for the year ended June 30, 2013. Denison 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 its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Denison 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 Denison 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 major federal program. However, our audit does not provide a legal determination of Denison Community School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

The management of Denison 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 Denison Community School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sample Community School District's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-13 to be a material weakness.

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 31, 2014
Newton, Iowa

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

Part I: Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness and significant deficiencies in internal control over financial reporting 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) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
- Clustering Programs
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 84.010 - Title I - Schools in Need of Assistance (SINA)
 - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Denison Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Basic 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 has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Wire transfers - processing and approving.
- 5) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 6) Financial reporting - preparing, reconciling and approving.
- 7) Computer systems - performing all general accounting functions and controlling all data input and output.
- 8) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

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

Conclusion - Response accepted.

II-B-13 Gate Admissions - We noted during our audit that ticket takers were not always reconciling and signing off on the gate admissions after the event.

Recommendation - The District should review internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures.

Response - We will have our ticket takers reconcile gate admissions.

Conclusion - Response accepted.

II-C-13 Agency Funds - We noted during our audit that the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the district serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District place certain assets into custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund."

The District appears to be improperly accounting for agency accounts. We noted drivers ed fees as well as summer school fees are reported in the Agency Fund and then in June these revenues are moved to the General Fund. We also noted a faculty pop account in the Agency Fund. These fees would appear to be District revenues and should be recorded in the General Fund upon receipt. Agency funds are to account for non-district revenue.

Recommendation - The District should review Chapter 9 of the LEA Administrative Manual which identifies funds and allowable revenues and expenses. The District should review each agency account for propriety and make the necessary transfers to the proper fund where monies can be appropriately received and expensed. The Driver's Ed fees, summer school fees, and revenues in the miscellaneous account should run through the General Fund. The faculty pop accounts in the agency fund should also be run through the General Fund, with their own unique codes if the District wants to be able to track individual buildings.

Response - We have reviewed Chapter 9 of the LEA Administrative Manual. Drivers ed fees, summer school fees, and the faculty pop accounts will be run through the General Fund.

Conclusion - Response accepted.

II-D-13 Scholarship Awards - We noted during our audit that money for scholarships was transferred from the Student Activity Fund to the Private Purpose Trust Fund. It also appeared that the money for the scholarship award was being taken from excess funds in the account.

Recommendation - The Private Purpose Trust Fund is more appropriate for scholarship revenues and expenditures. If groups in the Student Activity Fund intend on awarding scholarships each year, that group should fundraise specifically for that purpose each year and the proceeds from the fundraiser for the scholarship should be receipted directly into the Private Purpose Trust Fund. The sponsor or governing body of the group cannot arbitrarily decide to award scholarships from the profits of fundraisers or left over funds in the groups account.

Response - Donations, other revenues and subsequent expenditures for the purpose of scholarships to students within these various activities will be recorded in the Private Purpose Trust Fund.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

CFDA Number 84.010 - Title I - Schools in Need of Assistance (SINA)
CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
Federal Award Year: 2013
U.S. Department of Education
Passed through the Iowa Department of Education

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

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Wire transfers - processing and approving.
- 5) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 6) Financial reporting - preparing, reconciling and approving.
- 7) Computer systems - performing all general accounting functions and controlling all data input and output.
- 8) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

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

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - Expenditures for the year ended June 30, 2013 exceeded the certified budget amounts in the support services functional area.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-13 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the Student Activity Fund to be given as prizes from fundraising. Giving gift certificates/cards as prizes does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

Response - The District has reviewed its procedures and a memo has been shared with administrators referencing the fact that student activity funds will not be used to buy gift cards/gift certificates to give to students as incentive prizes.

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 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.

IV-G-13 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of ELL students was overstated by 1 student. This resulted in the number of students included in the District count being overstated by 0.22 students

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

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

Conclusion - Response accepted.

- 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 filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-13 Categorical Funding - No instances were noted of categorical funding 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 regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	791,976
Revenues:			
Sales tax revenues	\$ 1,667,755		
Other local revenues	1,770		
Federal revenues	100,000		
Transfer from other funds	12,719		
			<u>1,782,244</u>
			<u>2,574,220</u>
Expenditures/transfers out:			
School infrastructure construction	446,410		
Equipment	343,405		
Transfers to other funds:			
Other capital projects fund	-		
Debt service fund	800,026		
			<u>1,589,841</u>
Ending balance		\$	<u>984,379</u>

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