

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

JUNE 30, 2013

## TABLE OF CONTENTS

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management Discussion and Analysis (MD&A)		7-15
Basic Financial Statements:		
	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Position	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Position	G	24
Statement of Revenues, Expenses and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	J	27
Statement of Changes in Fiduciary Net Position	K	28
Notes to Financial Statements		29-38
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		40
Notes to Required Supplementary Information - Budgetary Reporting		41
Schedule of Funding Progress for the Retiree Health Plan		42
Supplementary Information:	<u>Schedule</u>	
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	45
Capital Projects Funds:		
Combining Balance Sheet	3	46
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	48
Schedule of Changes in Private Purpose Trust Fund, Scholarship Accounts	6	49
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	7	50
Schedule of Expenditures of Federal Awards	8	51
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		52-53
Independent Auditor’s Report on Compliance for Each Major Program, on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133		54-55
Schedule of Findings and Questioned Costs		56-63

Humboldt Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Trina Carda	President	2013
Rick Pedersen	Vice President	2013
Randy Hildreth	Board Member	2013
Brian Ricklefs	Board Member	2015
	(Resigned September 17, 2012)	
Brody Clark	Board Member	2013
	(Appointed October 15, 2012)	
Jennifer Berte	Board Member	2015
	(Resigned February 18, 2013)	
Kyle Kluender	Board Member	2013
	(Appointed February 18, 2013)	
<b>School Officials</b>		
Greg Darling	Superintendent	2013
Rhiannon Lange	District Secretary	2013
Annie Rathke	District Treasurer	2013
Ahlers & Cooney, P.C.	Attorney	2013

HUMBOLDT 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 Humboldt 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 Humboldt Community School District, Humboldt, 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 Humboldt 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.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Humboldt Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, 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 March 21, 2014 on our consideration of Humboldt 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 Humboldt Community School District's internal control over financial reporting and compliance.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2014  
Newton, Iowa

---

---

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

---

---

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

### **2013 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$12,575,232 in fiscal 2012 to \$12,995,938 in fiscal 2013, while General Fund expenditures increased from \$12,718,096 in fiscal 2012 to \$13,447,093 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from \$2,032,808 in fiscal 2012 to a balance of \$1,581,653 in fiscal 2013, a 22.19% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2013. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Humboldt 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 Humboldt 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 Humboldt Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

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

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

**Figure A-1**  
**Humboldt Community School District Annual Financial Report**

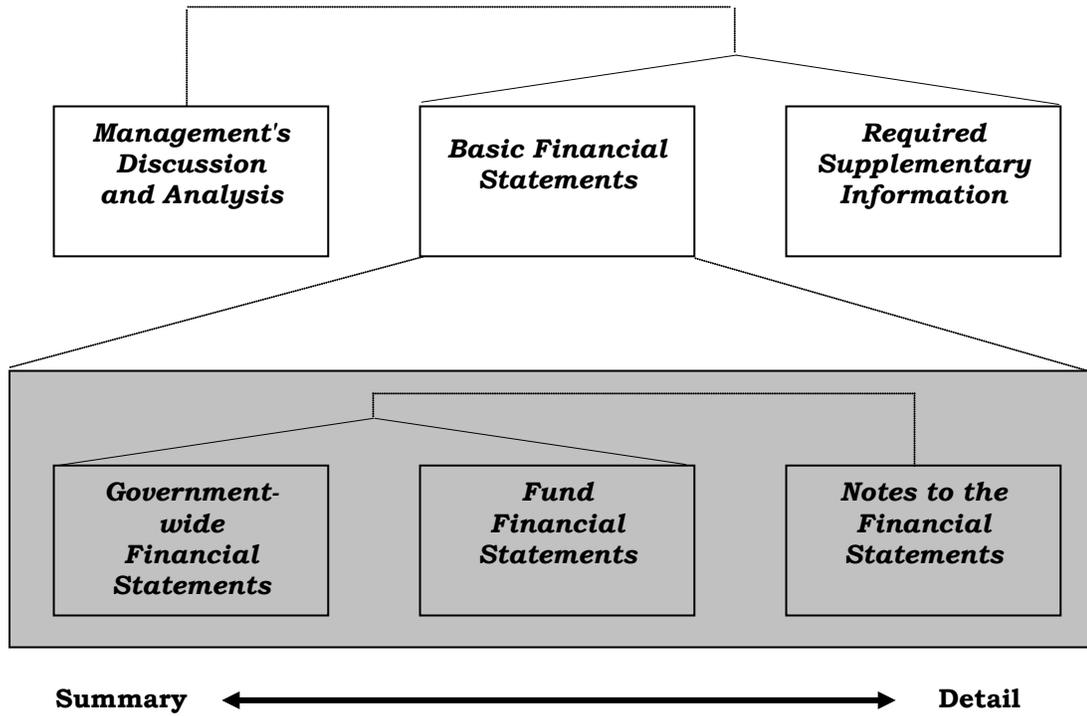


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net 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, Debt Service Fund and Capital Projects Fund.

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

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

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

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

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

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 9,663,479	10,514,606	243,484	152,920	9,906,963	10,667,526	-7.13%
Capital assets	14,473,521	14,706,886	10,467	-	14,483,988	14,706,886	-1.52%
Total assets	24,137,000	25,221,492	253,951	152,920	24,390,951	25,374,412	-3.88%
Long-term obligations	10,124,720	10,509,302	3,782	-	10,128,502	10,509,302	-3.62%
Other liabilities	5,237,695	5,753,131	233	244	5,237,928	5,753,375	-8.96%
Total liabilities	15,362,415	16,262,433	4,015	244	15,366,430	16,262,677	-5.51%
Net position:							
Invested in capital assets, net of related debt	5,008,521	5,428,459	10,467	-	5,018,988	5,428,459	-7.54%
Restricted	2,553,872	1,872,377	-	-	2,553,872	1,872,377	36.40%
Unrestricted	1,212,192	1,658,223	239,469	152,676	1,451,661	1,810,899	-19.84%
Total net position	\$ 8,774,585	8,959,059	249,936	152,676	9,024,521	9,111,735	-0.96%

The District's combined net position decreased by 0.96%, or \$87,214, from 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 \$681,495, or 36.40% over the prior year. The increase was a result of the increase in the Capital Projects: Statewide Sales, Services and Use Tax Fund and the Management Levy Fund.

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 \$359,238, or 19.84%. This decrease in unrestricted net position was primarily a result the District's decrease in the General fund balance.

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

Figure A-4  
Changes of Net Position

	Governmental Activities		Business Type Activities		Total		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues and transfers:							
Charges for services	\$ 1,722,040	1,167,944	276,695	266,438	1,998,735	1,434,382	39.34%
Operating grants and contributions and restricted interest	1,393,747	2,531,766	356,451	312,453	1,750,198	2,844,219	-38.46%
General revenues:							
Property tax	4,625,344	4,704,575	-	-	4,625,344	4,704,575	-1.68%
Income surtax	562,854	552,032	-	-	562,854	552,032	1.96%
Statewide sales, services and use tax	1,093,668	1,034,879	-	-	1,093,668	1,034,879	5.68%
Unrestricted state grants	5,586,844	4,492,259	-	-	5,586,844	4,492,259	24.37%
Unrestricted investment earnings	8,876	11,233	-	-	8,876	11,233	-20.98%
Other	195,842	4,784	3,840	-	199,682	4,784	4073.95%
Transfers	(11,419)	-	11,419	-	-	-	0.00%
Total revenues	15,177,796	14,499,472	648,405	578,891	15,826,201	15,078,363	4.96%
Program expenses:							
Governmental activities:							
Instructional	9,592,329	9,063,101	-	-	9,592,329	9,063,101	5.84%
Support services	4,763,543	3,109,703	7,220	5,580	4,770,763	3,115,283	53.14%
Non-instructional programs	-	-	543,925	528,934	543,925	528,934	2.83%
Other expenses	1,006,398	1,354,217	-	-	1,006,398	1,354,217	-25.68%
Total expenses	15,362,270	13,527,021	551,145	534,514	15,913,415	14,061,535	13.17%
Change in net position	(184,474)	972,451	97,260	44,377	(87,214)	1,016,828	-108.58%
Beginning net position	8,959,059	7,986,608	152,676	108,299	9,111,735	8,094,907	12.56%
Ending net position	\$ 8,774,585	8,959,059	249,936	152,676	9,024,521	9,111,735	-0.96%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 78.20% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.65% of the revenue from business type activities.

The District's total revenues were approximately \$15.83 million of which \$15.18 million was for governmental activities and \$0.65 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.96% increase in revenues and a 13.17% increase in expenses. The increase in expenses related primarily to an increase in negotiated salaries and benefits.

## Governmental Activities

Revenues for governmental activities were \$15,177,796 and expenses were \$15,362,270.

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

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	\$ 9,592,329	9,063,101	5.84%	6,964,548	5,855,500	18.94%
Support services	4,763,543	3,109,703	53.18%	4,737,589	3,068,826	54.38%
Other expenses	1,006,398	1,354,217	-25.68%	544,346	902,985	-39.72%
Totals	\$ 15,362,270	13,527,021	13.57%	12,246,483	9,827,311	24.62%

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$1,722,040.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,393,747.
- The net cost of governmental activities was financed with \$4,625,344 in property tax, \$562,854 in income surtax, \$1,093,668 in statewide sales, services and use tax, \$5,586,844 in unrestricted state grants, \$8,876 in unrestricted investment earnings, and \$195,842 in other general revenues, and capital contributions to the nutrition fund shown as transfers of \$11,419.

## Business Type Activities

Revenues of the District's business type activities were \$648,405 and expenses were \$551,145. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, and capital contributions received from the governmental funds.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,072,855, below last year's ending fund balances of \$4,430,904. The primary reason for the decrease in combined fund balances in fiscal 2013 is due to the decrease in the General Fund balance.

## Governmental Fund Highlights

- Overall, District revenues in the General Fund for fiscal 2013 increased 3.35% or \$420,706, to \$12,995,938 compared to \$12,575,232 in fiscal 2012. The expenses increased by 5.73% or \$728,997, to \$13,447,093 compared to \$12,718,096 in fiscal 2012. The General Fund balance decreased \$451,155.

- The Capital Projects Fund balance increased from \$1,405,254 in fiscal 2012 to \$1,425,992 in fiscal 2013. The increase was due to an increase in local tax revenue and a decrease in capital outlay expenditures.

### Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$152,676 at June 30, 2012 to \$249,936 at June 30, 2013, representing an increase of 63.70%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$320,424 more than budgeted revenues, a variance of 2.07%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2013, the District had invested \$14,483,988, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a 1.52% decrease from the prior year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$531,220.

The original cost of the District's capital assets was \$21,556,295. Governmental funds account for \$21,419,571 with the remainder of \$136,724 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,108,578 at June 30, 2013, compared to \$1,430,460 reported at June 30, 2012. This decrease was primarily due to the normal depreciation taken during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 49,250	49,250	-	-	49,250	49,250	0.00%
Buildings and improvements	12,888,935	12,791,155	-	-	12,888,935	12,791,155	0.76%
Land improvements	437,225	436,021	-	-	437,225	436,021	0.28%
Machinery and equipment	1,098,111	1,430,460	10,467	-	1,108,578	1,430,460	-22.50%
Total	\$ 14,473,521	14,706,886	10,467	-	14,483,988	14,706,886	-1.52%

---

## Long-Term Debt

At June 30, 2013, the District had \$10,128,502 in revenue and other long-term debt outstanding. This represents a decrease of 3.62% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding revenue bonded indebtedness of \$8,310,000 at June 30, 2013, payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had total outstanding capital loan note payable from the Capital Projects: Physical Plant and Equipment Levy of \$1,155,000 at June 30, 2013.

The District had total outstanding other postemployment benefits payable of \$663,502 at June 30, 2013.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenue bonds	\$ 8,310,000	8,610,000	-	-	8,310,000	8,610,000	-3.48%
Capital loan note	1,155,000	1,380,000	-	-	1,155,000	1,380,000	-16.30%
Net OPEB liability	659,720	519,302	3,782	-	663,502	519,302	27.77%
Totals	\$ 10,124,720	10,509,302	3,782	-	10,128,502	10,509,302	-3.62%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Enrollment is primary factor in Districts ability to maintain its educational offerings.
- New middle school drained some of our sources temporarily.
- Adequate allowable growth must be provided by legislature.
- District is expanding sharing programs with Twin Rivers Community School District in instructional and administrative functions.

## 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 Annie Rathke, District Treasurer, Humboldt Community School District, PO Box 130, Dakota City, Iowa, 50548.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 3,646,857	225,750	3,872,607
Receivables:			
Property tax:			
Delinquent	43,664	-	43,664
Succeeding year	4,734,450	-	4,734,450
Income surtax	531,909	-	531,909
Accounts	8,536	1,766	10,302
Due from other governments	698,063	-	698,063
Inventories	-	15,968	15,968
Capital assets, net of accumulated depreciation	14,473,521	10,467	14,483,988
<b>TOTAL ASSETS</b>	<b>24,137,000</b>	<b>253,951</b>	<b>24,390,951</b>
<b>LIABILITIES</b>			
Accounts payable	274,338	233	274,571
Interest payable	178,980	-	178,980
Deferred revenue:			
Succeeding year property tax	4,734,450	-	4,734,450
Other	49,927	-	49,927
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	360,000	-	360,000
Capital loan note payable	225,000	-	225,000
Portion due after one year:			
Revenue bonds payable	7,950,000	-	7,950,000
Capital loan note payable	930,000	-	930,000
Net OPEB liability	659,720	3,782	663,502
<b>TOTAL LIABILITIES</b>	<b>15,362,415</b>	<b>4,015</b>	<b>15,366,430</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	5,008,521	10,467	5,018,988
Restricted for:			
Categorical funding	224,430	-	224,430
Debt service	888,223	-	888,223
Management levy purposes	655,101	-	655,101
Student activities	71,699	-	71,699
School infrastructure	511,630	-	511,630
Physical plant and equipment	202,789	-	202,789
Unrestricted	1,212,192	239,469	1,451,661
<b>TOTAL NET POSITION</b>	<b>\$ 8,774,585</b>	<b>249,936</b>	<b>9,024,521</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, and Restricted Contributions Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 6,094,059	1,191,792	79,285	(4,822,982)	-	(4,822,982)
Special	1,699,291	335,314	290,780	(1,073,197)	-	(1,073,197)
Other	1,798,979	194,934	535,676	(1,068,369)	-	(1,068,369)
	<u>9,592,329</u>	<u>1,722,040</u>	<u>905,741</u>	<u>(6,964,548)</u>	<u>-</u>	<u>(6,964,548)</u>
Support services:						
Student	253,078	-	464	(252,614)	-	(252,614)
Instructional staff	1,041,796	-	2,804	(1,038,992)	-	(1,038,992)
Administration	1,430,432	-	-	(1,430,432)	-	(1,430,432)
Operation and maintenance of plant	1,418,747	-	-	(1,418,747)	-	(1,418,747)
Transportation	619,490	-	22,686	(596,804)	-	(596,804)
	<u>4,763,543</u>	<u>-</u>	<u>25,954</u>	<u>(4,737,589)</u>	<u>-</u>	<u>(4,737,589)</u>
Long-term debt interest	377,718	-	-	(377,718)	-	(377,718)
Other expenses:						
AEA flowthrough	462,052	-	462,052	-	-	-
Depreciation(unallocated)*	166,628	-	-	(166,628)	-	(166,628)
	<u>628,680</u>	<u>-</u>	<u>462,052</u>	<u>(166,628)</u>	<u>-</u>	<u>(166,628)</u>
Total governmental activities	15,362,270	1,722,040	1,393,747	(12,246,483)	-	(12,246,483)
Business type activities:						
Support services:						
Operation and maintenance of plant	7,220	-	-	-	(7,220)	(7,220)
Non-instructional programs:						
Nutrition services	543,925	276,695	356,451	-	89,221	89,221
	<u>551,145</u>	<u>276,695</u>	<u>356,451</u>	<u>-</u>	<u>82,001</u>	<u>82,001</u>
Total	<u>\$ 15,913,415</u>	<u>1,998,735</u>	<u>1,750,198</u>	<u>(12,246,483)</u>	<u>82,001</u>	<u>(12,164,482)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 4,233,286	-	4,233,286
Capital outlay				392,058	-	392,058
Income surtax				562,854	-	562,854
Statewide sales, services and use tax				1,093,668	-	1,093,668
Unrestricted state grants				5,586,844	-	5,586,844
Unrestricted investment earnings				8,876	-	8,876
Other general revenues				195,842	3,840	199,682
Transfers				(11,419)	11,419	-
Total general revenues				<u>12,062,009</u>	<u>15,259</u>	<u>12,077,268</u>
Changes in net position				(184,474)	97,260	(87,214)
Net position beginning of year				<u>8,959,059</u>	<u>152,676</u>	<u>9,111,735</u>
Net position end of year				<u>\$ 8,774,585</u>	<u>249,936</u>	<u>9,024,521</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,349,223	1,234,606	1,063,028	3,646,857
Receivables:				
Property tax:				
Delinquent	37,937	3,545	2,182	43,664
Succeeding year	4,249,225	410,224	75,001	4,734,450
Income surtax	531,909	-	-	531,909
Accounts	8,536	-	-	8,536
Due from other governments	506,036	192,027	-	698,063
<b>TOTAL ASSETS</b>	<b>\$ 6,682,866</b>	<b>1,840,402</b>	<b>1,140,211</b>	<b>9,663,479</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 270,152	4,186	-	274,338
Deferred revenue:				
Succeeding year property tax	4,249,225	410,224	75,001	4,734,450
Income surtax	531,909	-	-	531,909
Other	49,927	-	-	49,927
Total liabilities	<b>5,101,213</b>	<b>414,410</b>	<b>75,001</b>	<b>5,590,624</b>
Fund balances:				
Restricted for:				
Categorical funding	224,430	-	-	224,430
Debt service	-	711,573	355,630	1,067,203
Management levy purposes	-	-	655,101	655,101
Student activities	-	-	71,699	71,699
School infrastructure	-	511,630	-	511,630
Physical plant and equipment	-	202,789	-	202,789
Unassigned:				
General fund	1,357,223	-	-	1,357,223
Student activities	-	-	(17,220)	(17,220)
Total fund balances	<b>1,581,653</b>	<b>1,425,992</b>	<b>1,065,210</b>	<b>4,072,855</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,682,866</b>	<b>1,840,402</b>	<b>1,140,211</b>	<b>9,663,479</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds(page 20)</b>	\$	4,072,855
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.		14,473,521
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.		(178,980)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		531,909
Long-term liabilities, including bonds payable, capital loan note payable and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(10,124,720)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>8,774,585</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 4,548,656	1,485,726	230,283	6,264,665
Tuition	1,327,773	-	-	1,327,773
Other	252,458	118,006	355,157	725,621
State sources	6,340,733	-	-	6,340,733
Federal sources	513,222	-	-	513,222
Total revenues	<u>12,982,842</u>	<u>1,603,732</u>	<u>585,440</u>	<u>15,172,014</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	5,889,375	1,500	31,690	5,922,565
Special	1,685,278	-	-	1,685,278
Other	1,383,035	-	357,036	1,740,071
	<u>8,957,688</u>	<u>1,500</u>	<u>388,726</u>	<u>9,347,914</u>
Support services:				
Student	247,848	-	-	247,848
Instructional staff	871,947	128,271	-	1,000,218
Administration	1,318,662	2,000	78,912	1,399,574
Operation and maintenance of plant	1,110,173	-	58,419	1,168,592
Transportation	478,723	21,483	12,133	512,339
	<u>4,027,353</u>	<u>151,754</u>	<u>149,464</u>	<u>4,328,571</u>
Capital outlay	-	496,747	-	496,747
Long-term debt:				
Principal	-	-	525,000	525,000
Interest and fiscal charges	-	-	382,875	382,875
	<u>-</u>	<u>-</u>	<u>907,875</u>	<u>907,875</u>
Other expenditures:				
AEA flowthrough	462,052	-	-	462,052
Total expenditures	<u>13,447,093</u>	<u>650,001</u>	<u>1,446,065</u>	<u>15,543,159</u>
Excess(Deficiency) of revenues over(under) expenditures	(464,251)	953,731	(860,625)	(371,145)
Other financing sources(uses):				
Transfer in	-	-	932,993	932,993
Transfer out	-	(932,993)	-	(932,993)
Sale of equipment	13,096	-	-	13,096
Total other financing sources(uses)	<u>13,096</u>	<u>(932,993)</u>	<u>932,993</u>	<u>13,096</u>
Change in fund balances	(451,155)	20,738	72,368	(358,049)
Fund balances beginning of year	<u>2,032,808</u>	<u>1,405,254</u>	<u>992,842</u>	<u>4,430,904</u>
Fund balances end of year	<u>\$ 1,581,653</u>	<u>1,425,992</u>	<u>1,065,210</u>	<u>4,072,855</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

**Change in fund balances - total governmental funds(page 22)** \$ (358,049)

*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. The amounts of capital outlays, depreciation expense, and loss on disposal in the year are as follows:

Capital outlays	\$ 296,903	
Depreciation expense	<u>(530,268)</u>	(233,365)

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. 525,000

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. 5,157

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 17,201

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 (140,418)

**Change in net position of governmental activities(page 19)** \$ (184,474)

SEE NOTES TO FINANCIAL STATEMENTS.

HUMBOLDT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET POSITION  
 PROPRIETARY FUND  
 JUNE 30, 2013

	<u>School Nutrition</u>
<b>ASSETS</b>	
Current assets:	
Cash and pooled investments	\$ 225,750
Receivables:	
Accounts	1,766
Inventories	15,968
Total current assets	<u>243,484</u>
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	<u>10,467</u>
<b>TOTAL ASSETS</b>	<u>253,951</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	<u>233</u>
Long-term liabilities:	
Net OPEB liability	<u>3,782</u>
<b>TOTAL LIABILITIES</b>	<u>4,015</u>
<b>NET POSITION</b>	
Invested in capital assets	10,467
Unrestricted	239,469
<b>TOTAL NET POSITION</b>	<u>\$ 249,936</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 276,695
Miscellaneous	3,840
	280,535
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Salaries	4,612
Benefits	753
Services	1,855
Total support services	7,220
Non-instructional programs:	
Salaries	173,133
Benefits	40,503
Services	638
Supplies	328,526
Depreciation	952
Other	173
Total non-instructional programs	543,925
TOTAL OPERATING EXPENSES	551,145
OPERATING LOSS	(270,610)
NON-OPERATING REVENUES:	
State sources	6,101
Federal sources	350,350
TOTAL NON-OPERATING REVENUES	356,451
Change in net position before other financing sources	85,841
OTHER FINANCING SOURCES:	
Capital contributions	11,419
Change in net position	97,260
Net position beginning of year	152,676
Net position end of year	\$ 249,936

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 276,685
Cash received from miscellaneous sources	3,840
Cash payments to employees for services	(215,219)
Cash payments to suppliers for goods or services	(295,065)
Net cash used in operating activities	(229,759)
 Cash flows from non-capital financing activities:	
State grants received	6,101
Federal grants received	306,918
Net cash provided by non-capital financing activities	313,019
 Net increase in cash and cash equivalents	83,260
 Cash and cash equivalents at beginning of year	142,490
 Cash and cash equivalents at end of year	\$ 225,750
 Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (270,610)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	43,432
Depreciation	952
Increase in inventories	(7,294)
Increase in accounts receivable	(10)
Decrease in accounts payable	(11)
Increase in other postemployment benefits	3,782
Net cash used in operating activities	\$ (229,759)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$43,432.

During the year ended June 30, 2013 the District received capital contributions valued at \$11,419 from the Capital Projects: Physical Plant and Equipment Levy.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust</u>
	<u>Scholarship Fund</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 2,636,688
Accounts receivable	9,531
<b>TOTAL ASSETS</b>	<u>2,646,219</u>
<b>LIABILITIES</b>	
Accounts payable	<u>6,678</u>
<b>NET POSITION</b>	
Restricted for scholarships	<u>\$ 2,639,541</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Gifts and contributions	\$ 21,141
Interest income	144,343
Total additions	165,484
Deductions:	
Instruction:	
Scholarships awarded	27,467
Change in net position	138,017
Net position beginning of year	2,501,524
Net position end of year	\$ 2,639,541

SEE NOTES TO FINANCIAL STATEMENTS.

# HUMBOLDT COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

### **Note 1. Summary of Significant Accounting Policies**

The Humboldt Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the cities of Humboldt and Dakota City, Iowa, and the agricultural territory in Humboldt, Webster and Wright Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Humboldt 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 Humboldt Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Humboldt, Webster and Wright County Assessors' Conference Board.

#### B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 expenditures, including instructional, support and other costs.

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

The District also reports the following nonmajor proprietary funds:

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

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

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

Property Taxes - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

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

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

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

Inventories - The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The enterprise fund inventory consists primarily of

food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

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

Asset Class	Amount
Land	\$ 2,000
Buildings and improvements	10,000
Improvements other than buildings	10,000
Intangibles	75,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

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

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

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

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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.

**Note 2. Deposits and Pooled Investments**

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

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

Investments in common stock are stated at the approximate fair value based on the closing price for the stock on June 30, 2013. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. At June 30, 2013, the District owned Vanguard stock at a fair value of \$814,409. The District also had an annuity with Protective Life Insurance Company with a value of \$6,936.

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

**Note 3. Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Physical Plant and Equipment Levy	\$ 246,903
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	686,090
Total		<u>\$ 932,993</u>

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

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

#### **Note 4. Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 49,250	-	-	49,250
Total capital assets not being depreciated	<u>49,250</u>	<u>-</u>	<u>-</u>	<u>49,250</u>
Capital assets being depreciated:				
Buildings and improvements	16,115,043	230,447	-	16,345,490
Land improvements	1,339,760	35,165	-	1,374,925
Machinery and equipment	3,663,615	31,291	45,000	3,649,906
Total capital assets being depreciated	<u>21,118,418</u>	<u>296,903</u>	<u>45,000</u>	<u>21,370,321</u>
Less accumulated depreciation for:				
Buildings and improvements	3,323,888	132,667	-	3,456,555
Land improvements	903,739	33,961	-	937,700
Machinery and equipment	2,233,155	363,640	45,000	2,551,795
Total accumulated depreciation	<u>6,460,782</u>	<u>530,268</u>	<u>45,000</u>	<u>6,946,050</u>
Total capital assets being depreciated, net	<u>14,657,636</u>	<u>(233,365)</u>	<u>-</u>	<u>14,424,271</u>
Governmental activities capital assets, net	<u>\$ 14,706,886</u>	<u>(233,365)</u>	<u>-</u>	<u>14,473,521</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 125,305	11,419	-	136,724
Less accumulated depreciation	125,305	952	-	126,257
Business type activities capital assets, net	<u>\$ -</u>	<u>10,467</u>	<u>-</u>	<u>10,467</u>
Depreciation expense was charged by the District as follows:				
Governmental activities:				
Instruction:				
Regular				\$ 98,183
Other				43,637
Support services:				
Instructional				36,364
Administration				21,818
Operation and maintenance of plant				36,364
Transportation				127,274
				<u>363,640</u>
Unallocated depreciation				<u>166,628</u>
Total governmental activities depreciation expense				<u>\$ 530,268</u>
Business Type activities:				
Food services				<u>\$ 952</u>

**Note 5. Long-Term Debt**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b><u>Governmental Activities:</u></b>					
Revenue Bonds	\$ 8,610,000	-	300,000	8,310,000	360,000
Capital Loan Note	1,380,000	-	225,000	1,155,000	225,000
Termination Benefits	-	46,182	46,182	-	-
Net OPEB Liability	519,302	140,418	-	659,720	-
Total	\$ 10,509,302	186,600	571,182	10,124,720	585,000
<b><u>Business type Activities:</u></b>					
Net OPEB Liability	\$ -	3,782	-	3,782	-

**Revenue Bonds Payable**

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

Year Ending June 30,	Bond Issue of December, 23 2009				
	Interest Rate	Principal	Interest	Total	
2014	3.25 %	\$ 360,000	351,222	711,222	
2015	3.50	370,000	339,522	709,522	
2016	3.50	385,000	326,572	711,572	
2017	3.50	395,000	313,097	708,097	
2018	3.75	410,000	299,272	709,272	
2019-2023	3.90-4.20	2,285,000	1,245,293	3,530,293	
2024-2028	4.30-4.65	2,805,000	720,462	3,525,462	
2029-2030	5.00	1,300,000	98,250	1,398,250	
Total		\$ 8,310,000	3,693,690	12,003,690	

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,125,000 bonds issued December 23, 2009. 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 debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 65 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$12,003,690. For the current year, \$360,972 of interest and \$300,000 of principal was paid on the bonds and total statewide sales and services tax revenues were \$1,093,668.

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

- a) \$711,573 of the proceeds from the issuance of the revenue bonds shall be deposited to a 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.
- 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.

**Capital Loan Note Payable**

In April 2011, the District issued \$1,600,000 of Capital Loan Notes to complete the construction of a middle school building. Details of the District’s June 30, 2013 capital loan note indebtedness paid from the Capital Projects: Physical Plant and Equipment Levy are as follows:

Year Ending June 30,	Capital Loan Note Issue of May 1, 2011				
	Interest Rate	Principal	Interest	Total	
2014	1.10 %	\$ 225,000	20,216	245,216	
2015	1.45	225,000	17,740	242,740	
2016	1.80	230,000	14,477	244,477	
2017	2.05	235,000	10,337	245,337	
2018	2.30	240,000	5,520	245,520	
Total		\$ 1,155,000	68,290	1,223,290	

**Termination Benefits**

The District approved a one-time voluntary early retirement plan for employees. Eligible employees must have completed at least fifteen years of continuous service to the District and must have reached the age of fifty-five on or before June 30, 2013. The application for early retirement was subject to approval by the Board of Education.

Early retirement benefits equal \$12,000 plus \$55 per unused sick day for classified employees or \$10,000 plus \$25 per unused sick day for licensed employees.

At June 30, 2013, the District had no early retirement obligations. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$46,182.

**Note 6. Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 115 active and 29 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

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

Annual required contribution	\$ 210,087
Interest on net OPEB obligation	12,983
Adjustment to annual required contribution	<u>(33,134)</u>
Annual OPEB cost	189,936
Contributions made	<u>(45,736)</u>
Increase in net OPEB obligation	144,200
Net OPEB obligation beginning of year	<u>519,302</u>
Net OPEB obligation end of year	<u>\$ 663,502</u>

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

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 55,849	0.0%	\$ 160,801
2012	417,118	14.1%	519,302
2013	189,936	24.1%	663,502

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,052,932, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,052,932. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,369,000, and the ratio of the UAAL to covered payroll was 16.5%. As of June 30, 2013, there were no trust fund assets.

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

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from sample rates varying by age and employee type. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**Note 7. Pension and Retirement Benefits**

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

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered. Contribution requirements are established by State statute. The District’s contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$676,833, \$595,401, and \$488,288 respectively, equal to the required contributions for each year.

**Note 8. Risk Management**

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

**Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$462,052 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 10. Categorical Funding**

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

<u>Program</u>	<u>Amount</u>
Teacher salary supplement	\$ 3,106
Home school assistance program	4,418
Dropout and dropout prevention	139,865
Talented and gifted	34,836
Professional development	31,370
Before and after school	5,231
Teacher development academies	4,000
Four-year old preschool state aid	1,604
Total restricted for cateforical funding	<u>\$ 224,430</u>

**Note 11. Deficit Unassigned Balance**

During the year ended June 30, 2013 the District had a deficit unassigned balance of \$17,220 in the Student Activity Fund.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Types		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 8,318,059	280,535	8,598,594	7,808,456	7,808,456	790,138
State sources	6,340,733	6,101	6,346,834	7,050,120	7,050,120	(703,286)
Federal sources	513,222	350,350	863,572	630,000	630,000	233,572
Total revenues	15,172,014	636,986	15,809,000	15,488,576	15,488,576	320,424
Expenditures/expenses:						
Instruction	9,347,914	-	9,347,914	9,378,000	9,378,000	30,086
Support services	4,328,571	7,220	4,335,791	4,864,000	4,864,000	528,209
Non-instructional programs	-	543,925	543,925	700,000	700,000	156,075
Other expenditures/expenses	1,866,674	-	1,866,674	3,153,424	3,153,424	1,286,750
Total expenditures/expenses	15,543,159	551,145	16,094,304	18,095,424	18,095,424	2,001,120
Excess(Deficiency) of revenues over(under) expenditures/expenses	(371,145)	85,841	(285,304)	(2,606,848)	(2,606,848)	2,321,544
Other financing sources, net	13,096	11,419	24,515	-	-	24,515
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(358,049)	97,260	(260,789)	(2,606,848)	(2,606,848)	2,346,059
Balance beginning of year	4,430,904	152,676	4,583,580	4,956,653	4,956,653	(373,073)
Balance end of year	\$ 4,072,855	249,936	4,322,791	2,349,805	2,349,805	1,972,986

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

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

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 928,000	928,000	0.0%	\$ 6,713,000	13.8%
2010	July 1, 2008	-	928,000	928,000	0.0%	6,990,000	13.3%
2011	July 1, 2008	-	928,000	928,000	0.0%	7,270,000	12.8%
2012	July 1, 2011	-	1,112,642	1,112,642	0.0%	7,650,000	14.5%
2013	July 1, 2011	-	1,052,932	1,052,932	0.0%	6,369,000	16.5%

See Note 6 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

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

	Special Revenue			Debt Service	Total
	Management Levy	Student Activity	Total		
<b>ASSETS</b>					
Cash and pooled investments	\$ 652,919	54,479	707,398	355,630	1,063,028
Receivables:					
Property tax:					
Delinquent	2,182	-	2,182	-	2,182
Succeeding year	75,001	-	75,001	-	75,001
<b>TOTAL ASSETS</b>	<b>\$ 730,102</b>	<b>54,479</b>	<b>784,581</b>	<b>355,630</b>	<b>1,140,211</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Succeeding year property tax	\$ 75,001	-	75,001	-	75,001
Fund balances:					
Restricted for:					
Debt service	-	-	-	355,630	355,630
Management levy purposes	655,101	-	655,101	-	655,101
Student activities	-	71,699	71,699	-	71,699
Unassigned:					
Student activities	-	(17,220)	(17,220)	-	(17,220)
Total fund balances	655,101	54,479	709,580	355,630	1,065,210
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 730,102</b>	<b>54,479</b>	<b>784,581</b>	<b>355,630</b>	<b>1,140,211</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue			Debt Service	Total
	Management Levy	Student Activity	Total		
REVENUES:					
Local sources:					
Local tax	\$ 230,283	-	230,283	-	230,283
Other	6,878	348,279	355,157	-	355,157
Total revenues	237,161	348,279	585,440	-	585,440
EXPENDITURES:					
Current:					
Instruction:					
Regular	31,690	-	31,690	-	31,690
Other	-	357,036	357,036	-	357,036
Support services:					
Administration	78,912	-	78,912	-	78,912
Operation and maintenance of plant	58,419	-	58,419	-	58,419
Transportation	12,133	-	12,133	-	12,133
Long-term Debt:					
Principal	-	-	-	525,000	525,000
Interest and fiscal charges	-	-	-	382,875	382,875
Total expenditures	181,154	357,036	538,190	907,875	1,446,065
Excess(Deficiency) of revenues over(under) expenditures	56,007	(8,757)	47,250	(907,875)	(860,625)
OTHER FINANCING SOURCES:					
Transfer in	-	-	-	932,993	932,993
Change in fund balances	56,007	(8,757)	47,250	25,118	72,368
Fund balances beginning of year	599,094	63,236	662,330	330,512	992,842
Fund balances end of year	\$ 655,101	54,479	709,580	355,630	1,065,210

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,031,176	203,430	1,234,606
Receivables:			
Property tax:			
Delinquent	-	3,545	3,545
Succeeding year	-	410,224	410,224
Due from other governments	192,027	-	192,027
<b>TOTAL ASSETS</b>	<b>\$ 1,223,203</b>	<b>617,199</b>	<b>1,840,402</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ -	4,186	4,186
Deferred revenue:			
Succeeding year property tax	-	410,224	410,224
Total liabilities	-	414,410	414,410
Fund balances:			
Restricted for:			
Debt service	711,573	-	711,573
School infrastructure	511,630	-	511,630
Physical plant and equipment levy	-	202,789	202,789
Total fund balances	1,223,203	202,789	1,425,992
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,223,203</b>	<b>617,199</b>	<b>1,840,402</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,093,668	392,058	1,485,726
Other	5,044	112,962	118,006
Total revenues	<u>1,098,712</u>	<u>505,020</u>	<u>1,603,732</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	-	1,500	1,500
Support services:			
Instructional staff	125,765	2,506	128,271
Administration	1,500	500	2,000
Transportation	-	21,483	21,483
Capital outlay	250,128	246,619	496,747
Total expenditures	<u>377,393</u>	<u>272,608</u>	<u>650,001</u>
Excess of revenues over expenditures	721,319	232,412	953,731
OTHER FINANCING USES:			
Transfer out	(686,090)	(246,903)	(932,993)
Change in fund balances	35,229	(14,491)	20,738
Fund balance beginning of year	<u>1,187,974</u>	<u>217,280</u>	<u>1,405,254</u>
Fund balance end of year	<u>\$ 1,223,203</u>	<u>202,789</u>	<u>1,425,992</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUMBOLDT 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
Cross Country	\$ -	6,360	6,360	-
Boys Basketball	2,000	10,642	12,170	472
Football	-	53,486	52,912	574
Baseball	-	20,796	20,796	-
Boys Track	2,679	2,983	5,161	501
Boys Golf	-	1,458	1,458	-
Wrestling	316	21,455	21,382	389
Girls Basketball	2,000	11,032	12,585	447
Volleyball	56	11,690	11,746	-
Softball	-	4,492	4,469	23
Girls Track	-	2,333	2,333	-
Girls Golf	-	3,783	3,783	-
Soccer	-	11,124	11,124	-
Olympics	82	-	-	82
Spanish Club	298	706	485	519
Drama	7,429	7,761	5,918	9,272
Cheerleaders	-	6,149	6,149	-
Graphic Arts	573	-	-	573
Student Senate	5,813	5,692	5,834	5,671
Student Senate Special	250	-	-	250
FFA	6,207	21,662	13,925	13,944
MS Cheerleading	443	-	443	-
Drill Team	4,999	13,160	14,941	3,218
Class of 2013	1,112	-	-	1,112
Class of 2014	1,960	-	1,129	831
Prom	1,008	6,672	5,696	1,984
Administration	15	74	89	-
High School	2,940	3,293	4,649	1,584
Middle School	2,926	4,377	5,934	1,369
Taft	1,428	2,326	1,953	1,801
Mease	214	2,876	3,090	-
Secondary Academic Boosters	2,243	900	2,534	609
Elementary Art	20	-	20	-
Elementary PE	12	-	12	-
High School Art	24	-	-	24
Elementary Special	32	1,575	218	1,389
Elementary Academic Boosters	6,234	8,747	13,312	1,669
Elementary Yearbook	1,537	-	1,537	-
Vocal HS	1,143	2,864	2,726	1,281
Vocal MS	2,286	1,293	199	3,380
Vocal Elementary	1,033	1,260	452	1,841
Band HS	-	7,257	7,257	-
Band MS	2,987	4,092	5,144	1,935
Band Elementary	1,296	2,411	2,289	1,418
Band Resale HS	-	4,916	4,916	-
Band Uniforms	1,583	900	1,900	583
Nokomis Reserve	5,630	-	-	5,630
Nokomis 2012	2,315	1,691	3,268	738
Nokomis 2013	-	31,238	26,079	5,159
Concessions	10	-	-	10
Memorials - MS	53	-	-	53
Concessions - MS	1,073	-	-	1,073
Student Activity	(17,220)	39,756	39,756	(17,220)
Track Project	1,997	-	1,706	291
Fitness Trail	4,200	2,548	6,748	-
Checking Interest	-	449	449	-
<b>TOTAL</b>	<b>\$ 63,236</b>	<b>348,279</b>	<b>357,036</b>	<b>54,479</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HUMBOLDT COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS  
 JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Clyde R. & Nira Mease Scholarship	\$ 6,094	438	250	6,282
Dan Rusher Memorial	7,361	302	250	7,413
Bertha Peterson Scholarship	7,651	52	-	7,703
Michael H. Baker Scholarship	9,752	63	250	9,565
Harry Reasoner Educational Trust	3,969	196	175	3,990
Joe & Edith Reasoner Educational Trust	11,703	77	-	11,780
Cramlet/Schnoor Scholarship	81,033	484	2,000	79,517
Esther Hansen Scholarship	10,432	70	-	10,502
Anderson Scholarship	10,678	70	-	10,748
Klasse Scholarship	20,521	116	350	20,287
Griffin Scholarship	692,846	158,447	7,000	844,293
Castle Theater Scholarship	9,735	64	250	9,549
Howard G. & Ruth A. Louthen Trust	1,615,565	5,049	14,942	1,606,172
Bette L. Newton Scholarship	8,393	56	500	7,449
Rogness Scholarship	5,791	-	1,500	4,291
TOTAL	<u>\$ 2,501,524</u>	<u>165,484</u>	<u>27,467</u>	<u>2,639,541</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**HUMBOLDT 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
<b>Revenues:</b>										
<b>Local sources:</b>										
Local tax	\$ 6,264,665	6,271,445	5,856,871	5,421,442	4,380,103	4,619,566	4,832,670	4,708,402	4,500,733	4,574,524
Tuition	1,327,773	1,167,944	699,694	680,712	641,945	605,224	563,069	604,225	679,891	703,547
Other	725,621	492,806	670,695	678,492	584,228	785,249	737,907	528,340	512,747	436,592
State sources	6,340,733	6,010,920	6,017,759	4,983,633	5,739,568	5,674,712	5,314,953	5,119,715	5,127,797	472,698
Federal sources	513,222	535,316	968,501	1,116,635	413,810	415,101	637,089	305,622	322,688	170,904
<b>Total</b>	<b>\$ 15,172,014</b>	<b>14,478,431</b>	<b>14,213,520</b>	<b>12,880,914</b>	<b>11,759,654</b>	<b>12,099,852</b>	<b>12,085,688</b>	<b>11,266,304</b>	<b>11,143,856</b>	<b>6,358,265</b>
<b>Expenditures:</b>										
<b>Instruction:</b>										
Regular	\$ 5,922,565	5,558,359	5,533,375	5,425,578	4,830,195	5,207,288	4,758,080	4,468,592	4,491,662	4,277,529
Special	1,685,278	1,609,004	1,348,690	1,310,220	1,414,818	1,347,445	1,340,088	1,171,342	1,265,053	1,204,743
Other	1,740,071	1,581,393	1,664,711	1,538,845	1,577,193	1,160,250	985,062	919,935	929,905	885,573
<b>Support services:</b>										
Student	247,848	253,568	239,054	182,811	178,169	190,281	205,893	272,808	317,654	409,919
Instructional staff	1,000,218	652,710	694,253	500,707	505,899	506,433	546,597	452,163	567,479	319,374
Administration	1,399,574	1,343,436	1,405,993	1,048,273	1,052,134	1,113,036	1,062,281	993,063	1,028,026	994,212
Operation and maintenance of plant	1,168,592	1,414,465	1,116,194	1,701,409	920,998	881,125	974,165	805,227	792,801	787,221
Transportation	512,339	506,516	437,721	458,548	335,003	524,508	595,078	433,517	346,058	375,635
Non-instructional programs	-	-	-	-	-	-	6,323	-	3,389	-
<b>Other expenditures:</b>										
Capital outlays	496,747	5,104,631	5,822,761	812,553	508,334	803,763	332,005	139,309	32,489	58,683
<b>Long-term debt:</b>										
Principal	525,000	510,000	-	-	25,011	618,828	265,000	255,000	245,000	235,000
Interest and other charges	382,875	392,676	-	-	-	-	-	-	-	-
AEA flow-through	462,052	439,414	490,306	463,324	426,384	416,080	393,205	377,143	379,759	378,152
<b>Total</b>	<b>\$ 15,543,159</b>	<b>19,366,172</b>	<b>18,753,058</b>	<b>13,442,268</b>	<b>11,774,138</b>	<b>12,769,037</b>	<b>11,463,777</b>	<b>10,288,099</b>	<b>10,399,275</b>	<b>9,926,041</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	\$ 52,243
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	295,533 *
SPECIAL MILK PROGRAM FOR CHILDREN	10.556	FY 13	2,574
			<u>350,350</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 12	49,335
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 13	129,434
			<u>178,769</u>
ENGLISH LANGUAGE ACQUISITION STATE GRANTS (TITLE III)	84.365	FY 13	<u>5,204</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 13	<u>41,685</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 13	<u>8,554</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC			
GRANTS TO STATES	84.048	FY 13	<u>12,403</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 13	<u>67,056</u>
TOTAL			<u>\$ 664,021</u>

\* -Includes \$43,432 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Humboldt 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 financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

**To the Board of Education of the Humboldt 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 Humboldt Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Humboldt 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 Humboldt Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Humboldt 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 item 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 and II-C-13 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Humboldt 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.

## **Humboldt Community School District's Responses to Findings**

Humboldt Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Humboldt 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 Humboldt 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.

March 21, 2014  
Newton, Iowa

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

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

**Independent Auditor's Report on Compliance 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 Humboldt Community School District:**

**Report on Compliance for Each Major Federal Program**

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

**Opinion on Each Major Federal Program**

In our opinion, Humboldt 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 Humboldt 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 Humboldt 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 Humboldt 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 deficiencies in internal control over compliance we consider to be a material weakness and a significant deficiency.

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.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-B-13 to be a significant deficiency.

Humboldt 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. Humboldt 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.

March 21, 2014  
Newton, Iowa

HUMBOLDT 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 and significant deficiency in internal control over the major programs was noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:

Clustered Programs:

Nutrition Cluster

- CFDA Number 10.553 - School Breakfast Program
- CFDA Number 10.555 - National School Lunch Program
- CFDA Number 10.556 - Special Milk Program for Children

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.

- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Capital assets - purchasing, recording and reconciling.
- 7) Wire transfers - processing and approving.
- 8) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 9) Transfers - preparing and approving.
- 10) Financial reporting - preparing, reconciling and approving.
- 11) Computer systems - performing all general accounting functions and controlling all data input and output.
- 12) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - We will continue to review procedures to obtain the best control possible.

Conclusion - Response accepted.

II-B-13 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date and are not being kept on the District's software system. Fixed assets are required to be maintained for financial statement presentation.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets for reporting purposes.

Response - We will continue to have Assetmax review annually to biannually.

Conclusion - Response accepted.

II-C-13 Student Lunch Account Balances - We noted during our audit that the District did not have the end of year student lunch account balances. The end of the year student lunch account balances were also not reflected on the District's balance sheet at the end of the year.

Recommendation - The District should review its procedures related to the end of year student lunch account balances. The balances should be maintained and reflected on the District's balance sheet at the end of the year.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

OTHER MATTERS:

I-D-13 Commodity Pricing - We noted during our audit of the School Nutrition Fund that the District did not price the commodity inventory using the correct values provided by the Iowa Department of Education.

Recommendation - The District should review procedures in place for the calculation of commodity inventory at year end.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Capital assets - purchasing, recording and reconciling.
- 7) Wire transfers - processing and approving.
- 8) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 9) Transfers - preparing and approving.
- 10) Financial reporting - preparing, reconciling and approving.
- 11) Computer systems - performing all general accounting functions and controlling all data input and output.
- 12) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

III-B-13 Title I Reports - We noted that the Title I reports were not filed using the General ledger expenditures. The report over reported the actual expenditures. The District should amend the Title I General Budget grant downward from \$177,647 to \$129,434 which would reflect the actual expenditures made on that grant.

Recommendation - The District should work with the Department of Education and Title I personnel to amend downward Title I and make application for the unused allocation as carryover. In addition, the District should develop processes in completing the reports that ensure that the general ledger is used when completing the reports.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

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

IV-B-13 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees for meals purchased on the District credit card which lacked a detailed receipt. According to board policy 401.11, employees and officers using a credit card must submit a detailed receipt in addition to a credit card receipt when requesting reimbursement.

Recommendation - The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

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

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

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

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

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

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

Conclusion - Response accepted.

IV-H-13 Supplementary Weighting - We noted a variance in the supplementary weighting certified to the Department of Education. The amount certified was overstated by 0.17.

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 the Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-I-13 Deposits and Investments - The District's investment policy 704.3 appears to be in compliance with Chapter 12B and 12C of the Code of Iowa. However, during our audit, we noted the District owned stock through the Trust Fund with Vanguard Windsor II Fund Admiral Shares in the Private Purpose Trust Fund. We also noted that the District has an annuity with Protective Life Insurance Company in the Private Purpose Trust Fund. The District's ownership of the stock and annuity do not appear to be in compliance with the District policy 704.3 and Chapter 12B and 12C of the Code of Iowa. We also noted that the District owned land in Hawaii which does not appear to be an allowable investment under Chapter 12B and 12C of the Code of Iowa. We also noted that the District did not pass a depository resolution.

Recommendation - The District should review Board policy 704.3 and Chapter 12B and 12C of the Code of Iowa. The Land, Vanguard Windsor II Fund Admiral Shares, annuity with Protective Life Insurance Company should be sold and the District should invest in an investment that is in compliance with the District policy and Chapter 12B and 12C of the Code of Iowa. The District should also pass a depository resolution on an annual basis.

Response - The District received the Vanguard stock, annuity, and land in Hawaii as an inheritance; therefore, it was received not invested. We believe the gifts of these assets to the District in-kind can be retained without liquidation and reinvestment. The District did not "purchase and invest" in these assets, we received them. Purchasing and investing in assets require a positive act on the part of the Directors to take funds and purchase and invest them in an asset. When the gift was made in-kind to the District, no action of investment or purchase by the Board was required. We will consult with our legal counsel to get an opinion on this matter. The depository resolution is now done on an annual basis.

Conclusion - Response accepted.

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 - We noted during our audit that the administrative expenditures in the statewide voluntary preschool program exceeded the 5% threshold by \$1,603.83. The

following shows the adjustment made by the District to the ending restricted balance for the statewide voluntary preschool program.

	<u>Restricted Balance on District's CAR</u>	<u>Amount of Expense Adjustment</u>	<u>Audited Ending Restricted Balance</u>
Allowable growth for returning statewide voluntary preschool program	\$ -	\$ 1,604	\$ 1,604

Recommendation - The District should review their procedures to ensure that the administrative expenditures in the statewide voluntary preschool program do not exceeded the 5% threshold. The District should also notify the Department of Education to amend the certified budget.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

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

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments during the fiscal year 2013 audit:

Beginning balance		\$ 1,187,974
Revenues:		
Sales tax revenues	\$ 1,093,668	
Other local revenue	<u>5,044</u>	<u>1,098,712</u>
		2,286,686
Expenditures/transfers out:		
School infrastructure	\$ 18,087	
Equipment	60,409	
Other	298,897	
Transfers to other funds:		
Debt service fund	<u>686,090</u>	<u>1,063,483</u>
Ending balance		<u><u>\$ 1,223,203</u></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.

IV-M-13 Rents - We noted during our audit that the District receives money for the use of facilities when hosting district and regional events. The District currently receipts district and regional rents into the Student Activity Fund. We also noted that the District receipted rental of land for a cell phone tower to the Capital Projects: Physical Plant and Equipment Levy.

Recommendation - Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

IV-N-13 Financial Condition - The District had one account in the Special Revenue, Student Activity Fund that had a deficit balance at the end of the year totaling \$17,220.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit. The District should consider additional approval of bills from the Student Activity Fund. A workout plan for the deficit accounts should also be considered.

Response - The District will continue to monitor this fund.

Conclusion - Response accepted.

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

**Questionable Revenues and Expenses:** We noted during our audit that the District records PSAT testing revenues and expenses in the Student Activity Fund. We also noted newspaper subscription costs, field trip costs, expenses for the PATHS organization, and expenses to provide snacks during testing in the Student Activity Fund. In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the Activity Fund shall not be used as a clearing account for any other fund.

Recommendation - PSAT testing revenues and expenses are instructional in nature. Newspaper subscription costs, field trip costs, expenses for the PATHS organization, and expenses to provide snacks during testing are also instructional in nature. Revenues and expenditures for instructional supplies are more appropriately handled in the General Fund. In the future, the District should record these instructional revenues and expenses in the General Fund.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

**FFA Donation:** We noted a donation to the food pantry from the FFA account in the Student Activity Fund which appeared to be made from excess funds in the account.

Recommendation - If the FFA intends on giving a donation to the food pantry, the group needs to fundraise specifically for that purpose. The sponsor or governing body of the FFA cannot arbitrarily decide to donate from the profits of fundraisers or left over funds in the account.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

**BoxTop Donations:** We noted during our audit that the District receipts BoxTop donations into the Student Activity Fund.

Recommendation - Donations given to a school should be expended according to donor request. According to information contained on the website for BoxTops, the donation can be used for items such as books, computers or playground equipment. Since the items listed for purchase with BoxTop donations appear more instructional in nature, the most logical place to record these donations would be the general fund.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

**Target Donations:** We noted during our audit that the District receipts Target donations in the Student Activity Fund.

Recommendation - Target donations are considered an undesignated donation; therefore, they should be receipted into the General Fund for use as determined by the District's Board of Directors. This designation should be noted annually in the District's board minutes.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

**Lifetouch Picture Commissions:** We noted during our audit that Lifetouch Picture commissions were being receipted to the Student Activity Fund. According to Chapter 298A.2 of the Code of Iowa all money received by a District must be accounted for in the General Fund excepted for money required by law to be accounted for in another fund. Since commissions are not identified as allowable to the Student Activity Fund, they should be put in the General Fund.

Recommendation - According to Chapter 298A.2 of the Code of Iowa all money received by a District must be accounted for in the General Fund excepted for money required by law to be accounted for in another fund. Commissions are not specifically identified as allowable revenue for the Student Activity Fund, therefore Lifetouch Picture commissions should be receipted into the General Fund.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.

IV-P-13 Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. We also noted a contract for DJ Services signed by a teacher. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - Procedure is in place to correct this.

Conclusion - Response accepted.