

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

JUNE 30, 2013

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Keokuk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Tyler McGhghy	President	2013
Sandy Stark	Vice President	2015
Alka Khanolkar	Board Member	2013
Roger Kokemuller	Board Member	2013
John Davis	Board Member	2015
Mike Beaird	Board Member	2015
Mark Pfaffe	Board Member	2015
School Officials		
Dr. Lora Wolf	Superintendent	2013
Greg Reynolds	District Secretary/Treasurer and Business Manager	2013
Ahlers and Cooney, P.C.	Attorney	2013
Dorsey & Whitney, LLP	Attorney	2013
James F. Dennis	Attorney	2013

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

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information.

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our 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 Keokuk Community School District's basic financial statements. We previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 11, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2014, on our consideration of the Keokuk Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Keokuk Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$20,434,101 in fiscal 2012 to \$19,787,988 in fiscal 2013, while General Fund expenditures increased from \$20,351,995 in fiscal 2012 to \$21,321,969 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from \$4,378,528 in fiscal 2012 to a balance of \$2,844,547 in fiscal 2013, a 35.03% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in federal ARRA grant revenues in fiscal 2013. The increase in expenditures was due to the purchase of technology for staff and students along with an increase in instruction and support services expenditures.

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

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

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

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

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

Figure A-1
Keokuk Community School District Annual Financial Report

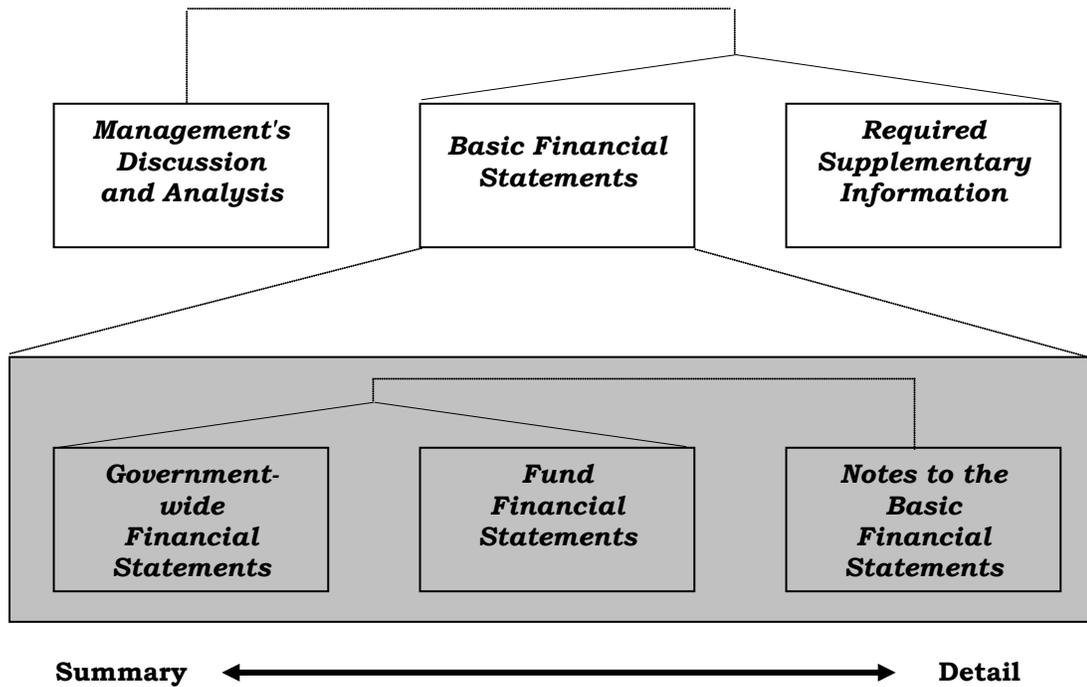


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the 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 the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position.

Reconciliation 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 School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 15,543,476	19,583,212	93,097	180,726	15,636,573	19,763,938	-20.88%
Capital assets	33,343,430	30,732,950	298,607	353,432	33,642,037	31,086,382	8.22%
Total assets	48,886,906	50,316,162	391,704	534,158	49,278,610	50,850,320	-3.09%
Long-term obligations	18,324,116	19,276,105	0	0	18,324,116	19,276,105	-4.94%
Other liabilities	7,631,994	8,641,312	16,957	43,209	7,648,951	8,684,521	-11.92%
Total liabilities	25,956,110	27,917,417	16,957	43,209	25,973,067	27,960,626	-7.11%
Net position:							
Invested in capital assets, net of related debt	15,873,430	13,861,028	298,607	353,432	16,172,037	14,214,460	13.77%
Restricted	4,860,555	6,068,435	0	0	4,860,555	6,068,435	-19.90%
Unrestricted	2,196,811	2,469,282	76,140	137,517	2,272,951	2,606,799	-12.81%
Total net position	\$ 22,930,796	22,398,745	374,747	490,949	23,305,543	22,889,694	1.82%

The District's combined net position increased by 1.82% or \$415,849 over the prior year. The largest portion of the District's net position is the invested in capital assets, (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased \$1,207,880 or 19.90% from the prior year. This decrease was primarily a result of the decrease in the Capital Projects: Statewide, Sales, Services and Use Tax Fund balance during the year.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$333,848 or 12.81%. This decrease in unrestricted net position was primarily the result of 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 the year ended June 30, 2012.

	Figure A-4						
	Changes in Net Position						
	Governmental Activities		Business type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	\$ 547,076	528,805	246,407	246,249	793,483	775,054	2.38%
Operating grants and contributions and restricted interest	2,640,204	3,081,847	641,119	658,624	3,281,323	3,740,471	-12.28%
Operating grants and contributions and restricted interest	98,870	0	0	0	98,870	0	100.00%
General revenues:							
Property tax	6,705,635	6,580,863	0	0	6,705,635	6,580,863	1.90%
Statewide sales, services and use tax	1,639,280	1,603,774	0	0	1,639,280	1,603,774	2.21%
Unrestricted state grants	11,567,810	11,286,327	0	0	11,567,810	11,286,327	2.49%
Nonspecific program federal grants	0	447,772	0	0	0	447,772	-100.00%
Unrestricted investment earnings	35,659	160,082	92	0	35,751	160,082	-77.67%
Other	176,543	102,968	259	4,352	176,802	107,320	64.74%
Gain on the sale of real property (Note 12)	390,213	0	0	0	390,213	0	100.00%
Total revenues	23,801,290	23,792,438	887,877	909,225	24,689,167	24,701,663	-0.05%
Program expenses:							
Governmental activities:							
Instructional	14,774,602	14,205,582	0	0	14,774,602	14,205,582	4.01%
Support services	6,144,201	6,203,801	23,189	9,142	6,167,390	6,212,943	-0.73%
Non-instructional programs	13,689	8,042	980,890	942,670	994,579	950,712	4.61%
Other expenses	2,336,747	2,131,954	0	0	2,336,747	2,131,954	9.61%
Total expenses	23,269,239	22,549,379	1,004,079	951,812	24,273,318	23,501,191	3.29%
Changes in net position	532,051	1,243,059	(116,202)	(42,587)	415,849	1,200,472	65.36%
Net position beginning of year	22,398,745	21,155,686	490,949	533,536	22,889,694	21,689,222	5.53%
Net position end of year	\$ 22,930,796	22,398,745	374,747	490,949	23,305,543	22,889,694	1.82%

In fiscal 2013, property tax, statewide sales, services and use tax and unrestricted state grants account for 83.66% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.96% of the revenue from business type activities.

The District's total revenues were approximately \$24.69 million, of which \$23.80 million was for governmental activities and approximately \$0.89 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.05% decrease in revenues and a 3.29% increase in expenses. The increases in expenses were related to increases in negotiated salaries and benefits expenses.

Governmental Activities

Revenues for governmental activities were \$23,801,290 and expenses were \$23,269,239.

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

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 14,774,602	14,205,582	4.01%	12,399,900	11,736,415	5.65%
Support services	6,144,201	6,203,801	-0.96%	6,039,509	5,877,787	2.75%
Non- instructional programs	13,689	8,042	70.22%	13,689	1,635	737.25%
Other expenses	2,336,747	2,131,954	9.61%	1,529,991	1,322,890	15.66%
Total	\$ 23,269,239	22,549,379	3.19%	19,983,089	18,938,727	5.51%

- The cost financed by users of the District's programs was \$547,076.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,739,074.
- The net cost of governmental activities was financed with \$6,705,635 in property tax, \$1,639,280 in statewide sales, service and use tax, \$11,567,810 in unrestricted state grants, \$35,659 in interest income and \$176,543 in other general revenues, and \$390,213 of gain on the sale of real property.

Business type Activities

Revenues of the District's business type activities were \$887,877 and expenses were \$1,004,079. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Keokuk 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 \$7,690,578, compared to last year's ending fund balances of \$11,048,219. However, the primary reason for the decrease was due to the District finishing its high school renovation project during the year and capitalizing it as part of the District's capital asset listing.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the product of many factors. The District's General Fund balance decreased from \$4,378,528 at June 30, 2012 to \$2,844,547 at June 30, 2013. The primary reason for this decrease in fund balance is increased instructional expenses related to technology purchases for students and staff during the year as compared to the previous year.

-
- The Capital Projects Accounts balance decreased from \$5,675,541 at the beginning of the fiscal year 2013 to \$3,079,632. The decrease was primarily the result of capital outlay expenditures associated with the completion of the high school renovation project during the year.
 - The Debt Service Fund balance increased to \$1,107,817 during the current year, above last year's balance of \$409,392. The Debt Service Fund balance increased during the year due to an increase in local revenue sources received when compared to the prior year.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$490,949 at June 30, 2012 to \$374,747 at June 30, 2013, representing a decrease of approximately 23.67%. The School Nutrition Fund decrease in revenue received during the year was primarily due to a decrease in federal revenue received. An increase in expenditures associated with supplies was a contributing factor to the increase in expenditures when compared to the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Keokuk Community School District amended its budget one time to reflect additional expenditures associated with the renovation projects at the District's High School.

The District's revenues were \$1,936,442 less than budgeted revenues, a variance of 7.38%. The most significant variance resulted from the District less in federal sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$33,642,037, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 8.22% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,217,629.

The original cost of the District's capital assets was \$50,374,109. Governmental funds account for \$49,425,214 with the remainder of \$948,895 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$10,770,732 at June 30, 2012, compared to \$38,552 reported at June 30, 2013. This decrease resulted from the District completing its high school renovations project during the year and capitalizing it as part of the District's capital asset listing.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 815,351	870,063	0	0	815,351	870,063	-6.29%
Construction in progress	38,552	10,770,732	0	0	38,552	10,770,732	-99.64%
Buildings	30,311,823	17,717,535	0	0	30,311,823	17,717,535	71.08%
Land improvements	1,703,889	735,447	0	0	1,703,889	735,447	131.68%
Machinery and equipment	473,815	639,173	298,607	353,432	772,422	992,605	-22.18%
Total	\$ 33,343,430	30,732,950	298,607	353,432	33,642,037	31,086,382	8.22%

Long-Term Debt

At June 30, 2013, the District had long-term debt outstanding of \$18,324,116 in general obligation bonds, revenue bonds and other long-term debt. This represents a decrease of 4.94% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$3,435,000 at June 30, 2013.

The District had outstanding Revenue Bonds payable of \$14,035,000 at June 30, 2013. These are payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had outstanding termination benefits payable of \$718,710 at June 30, 2013. \$20,000 is payable from the General Fund while the remaining \$698,710 is payable from the Special Revenue, Management Levy Fund.

The District had outstanding compensated absences payable from the General Fund of \$135,406 at June 30, 2013.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2013	2012	2012-13
General obligation bonds	\$ 3,435,000	3,990,000	-13.91%
Revenue bonds	14,035,000	14,035,000	0.00%
Termination benefits	718,710	1,118,062	-35.72%
Compensated absences	135,406	133,043	1.78%
Total	\$ 18,324,116	19,276,105	-4.94%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The State of Iowa has set the supplemental state aid (formerly allowable growth) rates for fiscal years 2014 and 2015 at two and four percent, respectively. The State of Iowa also provided a one-time two percent supplemental state aid allocation for fiscal year 2014. At this time, the District is unable to determine the level of the allowable growth rates from the State of Iowa for any future fiscal periods beyond fiscal year 2015. As the District's

General Fund budget is comprised of approximately 80 percent salary and benefits, the ability to negotiate future salary settlements will continue to have a significant impact on future budget decisions.

- The Iowa school funding formula is highly dependent upon student enrollment. The District has continued to experience a decline in enrollment of 213 student, or 9.6% of the student population in the last five years which will continue to negatively impact the District's revenues while costs are expected to increase.
- The District has experienced little to no growth in taxable valuations in recent years which will force a shifting in funding between state aid and property taxes.
- The state of the national economy has historically influenced the State's economy. While it appears that the economy has improved at both national and state levels, future funding to schools in Iowa will undoubtedly continue to be directly affected. The state has issued three mid year budget reductions to schools in the last ten years and future state funding reductions are always a concern.

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 Greg Reynolds, District Secretary/Treasurer and Business Manager, Keokuk Community School District, 1721 Fulton Street, Keokuk, Iowa, 52632.

Basic Financial Statements

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

	Governmental Activities	Business type Activities	Total
Assets			
Cash and pooled investments	\$ 7,223,510	49,906	7,273,416
Receivables:			
Property tax:			
Delinquent	123,848	0	123,848
Succeeding year	6,936,567	0	6,936,567
Accounts	2,759	1,946	4,705
Due from other governments	748,701	3,830	752,531
Inventories	0	17,619	17,619
Net OPEB asset	508,091	19,796	527,887
Capital assets, net of accumulated depreciation	33,343,430	298,607	33,642,037
Total Assets	48,886,906	391,704	49,278,610
Liabilities			
Accounts payable	386,678	4,964	391,642
Accrued interest payable	287,187	0	287,187
Deferred revenue:			
Succeeding year property tax	6,936,567	0	6,936,567
Other	21,562	0	21,562
Unearned revenue	0	11,993	11,993
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	575,000	0	575,000
Revenue bonds payable	700,000	0	700,000
Termination benefits	384,718	0	384,718
Compensated absences	135,406	0	135,406
Portion due after one year:			
General obligation bonds payable	2,860,000	0	2,860,000
Revenue bonds payable	13,335,000	0	13,335,000
Termination benefits	333,992	0	333,992
Total Liabilities	25,956,110	16,957	25,973,067
Net Position			
Invested in capital assets, net of related debt	15,873,430	298,607	16,172,037
Restricted for:			
Categorical funding	894,066	0	894,066
Debt service	2,089,769	0	2,089,769
School infrastructure	1,193,426	0	1,193,426
Physical plant and equipment levy	617,067	0	617,067
Student activities	66,227	0	66,227
Unrestricted	2,196,811	76,140	2,272,951
Total Net Position	\$ 22,930,796	374,747	23,305,543

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total	
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities		
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 8,708,576	229,417	400,603	0	(8,078,556)	0	(8,078,556)
Special	3,605,799	18,523	603,248	0	(2,984,028)	0	(2,984,028)
Other	2,460,227	296,806	826,105	0	(1,337,316)	0	(1,337,316)
	<u>14,774,602</u>	<u>544,746</u>	<u>1,829,956</u>	<u>0</u>	<u>(12,399,900)</u>	<u>0</u>	<u>(12,399,900)</u>
Support services:							
Student	830,528	0	315	0	(830,213)	0	(830,213)
Instructional staff	495,477	0	0	0	(495,477)	0	(495,477)
Administration	2,359,065	0	0	0	(2,359,065)	0	(2,359,065)
Operation and maintenance of plant	1,883,121	0	0	98,870	(1,784,251)	0	(1,784,251)
Transportation	576,010	2,330	3,177	0	(570,503)	0	(570,503)
	<u>6,144,201</u>	<u>2,330</u>	<u>3,492</u>	<u>98,870</u>	<u>(6,039,509)</u>	<u>0</u>	<u>(6,039,509)</u>
Non-instructional programs:							
Food service operations	13,485	0	0	0	(13,485)	0	(13,485)
Community service and education operations	204	0	0	0	(204)	0	(204)
	<u>13,689</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(13,689)</u>	<u>0</u>	<u>(13,689)</u>
Long-term debt interest	607,261	0	0	0	(607,261)	0	(607,261)
Other expenditures:							
AEA flowthrough	806,756	0	806,756	0	0	0	0
Depreciation(unallocated)*	922,730	0	0	0	(922,730)	0	(922,730)
	<u>1,729,486</u>	<u>0</u>	<u>806,756</u>	<u>0</u>	<u>(922,730)</u>	<u>0</u>	<u>(922,730)</u>
Total governmental activities	23,269,239	547,076	2,640,204	98,870	(19,983,089)	0	(19,983,089)
Business type activities:							
Support services:							
Operation and maintenance of plant	23,189	0	0	0	0	(23,189)	(23,189)
Non-instructional programs:							
Food service operations	980,890	246,407	641,119	0	0	(93,364)	(93,364)
Total business type activities	<u>1,004,079</u>	<u>246,407</u>	<u>641,119</u>	<u>0</u>	<u>0</u>	<u>(116,553)</u>	<u>(116,553)</u>
Total	<u>\$ 24,273,318</u>	<u>793,483</u>	<u>3,281,323</u>	<u>98,870</u>	<u>(19,983,089)</u>	<u>(116,553)</u>	<u>(20,099,642)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 5,980,674	0		5,980,674
Debt service				594,398	0		594,398
Capital outlay				130,563	0		130,563
Statewide sales, services and use tax				1,639,280	0		1,639,280
Unrestricted state grants				11,567,810	0		11,567,810
Unrestricted investment earnings				35,659	92		35,751
Other				176,543	259		176,802
Gain on sale of real property(Note 12)				390,213	0		390,213
Total general revenues				<u>20,515,140</u>	<u>351</u>		<u>20,515,491</u>
Changes in net position				532,051	(116,202)		415,849
Net position beginning of year				<u>22,398,745</u>	<u>490,949</u>		<u>22,889,694</u>
Net position end of year				<u>\$ 22,930,796</u>	<u>374,747</u>		<u>23,305,543</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 2,663,813	2,811,191	1,097,344	651,162	7,223,510
Receivables:					
Property tax:					
Delinquent	98,108	2,300	10,473	12,967	123,848
Succeeding year	5,529,711	133,940	607,916	665,000	6,936,567
Accounts	2,759	0	0	0	2,759
Due from other governments	479,746	268,955	0	0	748,701
Total Assets	\$ 8,774,137	3,216,386	1,715,733	1,329,129	15,035,385
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 378,317	2,814	0	5,547	386,678
Deferred revenue:					
Succeeding year property tax	5,529,711	133,940	607,916	665,000	6,936,567
Other	21,562	0	0	0	21,562
Total liabilities	5,929,590	136,754	607,916	670,547	7,344,807
Fund balances:					
Restricted for:					
Categorical funding	894,066	0	0	0	894,066
Debt service	0	1,269,139	1,107,817	0	2,376,956
School infrastructure	0	1,193,426	0	0	1,193,426
Physical plant and equipment	0	617,067	0	0	617,067
Management levy purposes	0	0	0	592,355	592,355
Student activities	0	0	0	66,227	66,227
Unassigned	1,950,481	0	0	0	1,950,481
Total fund balances	2,844,547	3,079,632	1,107,817	658,582	7,690,578
Total Liabilities and Fund Balances	\$ 8,774,137	3,216,386	1,715,733	1,329,129	15,035,385

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds(page 20)	\$	7,690,578
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		33,343,430
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(287,187)
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.		508,091
Long-term liabilities, including bonds payable, compensated absences payable and termination benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(18,324,116)</u>
Net position of governmental activites(page 18)	\$	<u>22,930,796</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 5,282,439	1,769,843	594,398	698,235	8,344,915
Tuition	215,858	0	0	0	215,858
Other	104,521	155,619	43	306,081	566,264
State sources	12,570,466	0	0	0	12,570,466
Federal sources	1,614,704	98,870	0	0	1,713,574
Total revenues	19,787,988	2,024,332	594,441	1,004,316	23,411,077
Expenditures:					
Current:					
Instruction:					
Regular	8,801,885	0	0	363,664	9,165,549
Special	3,692,260	0	0	0	3,692,260
Other	2,180,597	0	0	266,704	2,447,301
	14,674,742	0	0	630,368	15,305,110
Support services:					
Student	851,818	0	0	0	851,818
Instructional staff	506,334	0	0	0	506,334
Administration	2,287,050	3,550	2,525	53,675	2,346,800
Operation and maintenance of plant	1,732,100	93,494	0	200,944	2,026,538
Transportation	462,965	33,261	0	33,270	529,496
	5,840,267	130,305	2,525	287,889	6,260,986
Non-instructional programs:					
Food service operations	0	0	0	12,235	12,235
Community service and education operations	204	0	0	0	204
	204	0	0	12,235	12,439
Capital outlay	0	3,664,972	0	0	3,664,972
Long-term debt:					
Principal	0	0	555,000	0	555,000
Interest and fiscal charges	0	0	608,380	0	608,380
	0	0	1,163,380	0	1,163,380
Other expenditures:					
AEA flowthrough	806,756	0	0	0	806,756
Total expenditures	21,321,969	3,795,277	1,165,905	930,492	27,213,643
Excess(Deficiency) of revenues over(under) expenditures	(1,533,981)	(1,770,945)	(571,464)	73,824	(3,802,566)
Other financing sources(uses):					
Transfer in	0	0	1,269,889	0	1,269,889
Transfer out	0	(1,269,889)	0	0	(1,269,889)
Total other financing sources(uses)	0	(1,269,889)	1,269,889	0	0
Change in fund balances before special item	(1,533,981)	(3,040,834)	698,425	73,824	(3,802,566)
Special item:					
Proceeds from the sale of real property(Note 12)	0	444,925	0	0	444,925
Change in fund balances	(1,533,981)	(2,595,909)	698,425	73,824	(3,357,641)
Fund balance beginning of year	4,378,528	5,675,541	409,392	584,758	11,048,219
Fund balance end of year	\$ 2,844,547	3,079,632	1,107,817	658,582	7,690,578

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK 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) \$ (3,357,641)

*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 reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year were as follows:

Capital outlays	\$ 3,813,745	
Depreciation expense	<u>(1,148,553)</u>	2,665,192

The proceeds from the sale of real property (\$444,925) are reported as revenue in the governmental funds. However, the cost of the real property as well as the corresponding depreciation (\$54,712) is removed from the capital assets account in the Statement of Net Position and offset against the sale proceeds resulting in a "gain on sale of real property" which is reported in the government-type revenues. Thus, more revenue is reported in the governmental funds than on the Statement of Activities. (54,712)

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. 555,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,119

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Termination benefits	399,352	
Compensated absences	(2,363)	
Other postemployment benefits	<u>326,104</u>	<u>723,093</u>

Change in net position of governmental activities(page 19) \$ 532,051

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Current assets:	
Cash and pooled investments	\$ 49,906
Accounts receivable	1,946
Due from other governments	3,830
Inventories	17,619
Net OPEB asset	19,796
Total current assets	93,097
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	298,607
Total non-current assets	298,607
TOTAL ASSETS	391,704
LIABILITIES	
Accounts payable	4,964
Unearned revenue	11,993
TOTAL LIABILITIES	16,957
NET POSITION	
Invested in capital assets	298,607
Unrestricted	76,140
TOTAL NET POSITION	\$ 374,747

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 246,407
Miscellaneous	259
Total operating revenues	246,666
Operating expenses:	
Support services:	
Operation and maintenance of plant:	
Services	18,811
Supplies	4,378
	23,189
Non-instructional programs:	
Food service operations:	
Salaries	294,487
Benefits	130,575
Services	1,990
Supplies	484,762
Depreciation	69,076
	980,890
Total operating expenses	1,004,079
Operating loss	(757,413)
Non-operating revenues:	
State sources	7,189
Federal sources	633,930
Interest income	92
Total non-operating revenues	641,211
Change in net position	(116,202)
Net position beginning of year	490,949
Net position end of year	\$ 374,747

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 248,939
Cash received from miscellaneous operating activities	259
Cash payments to employees for services	(437,551)
Cash payments to suppliers for goods or services	(454,511)
Net cash used in operating activities	(642,864)
Cash flows from non-capital financing activities:	
Repayments to the General Fund	(30,404)
State grants received	7,189
Federal grants received	584,018
Net cash provided by non-capital financing activities	560,803
Cash flows from investing activities:	
Interest on investments	92
Cash flows from capital financing activities:	
Purchase of assets	(14,251)
Net increase in cash and cash equivalents	(96,220)
Cash and cash equivalents at beginning of year	146,126
Cash and cash equivalents at end of year	\$ 49,906
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (757,413)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	49,939
Depreciation	69,076
Decrease in inventories	2,547
Decrease in accounts receivable	1,324
Increase in accounts payable	2,944
Increase in unearned revenue	1,208
Decrease in other postemployment benefits	(12,489)
Net cash used in operating activities	\$ (642,864)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$49,939.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust Scholarships</u>
Assets	
Cash and pooled investments	<u>\$ 139,632</u>
Liabilities	<u>0</u>
Net Position	
Restricted for scholarships	<u><u>\$ 139,632</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust Scholarships</u>
ADDITIONS:	
Local sources:	
Gifts and contributions	\$ 6,638
Interest income	3,892
TOTAL ADDITIONS	<u>10,530</u>
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarship awarded	<u>9,780</u>
Change in net position	750
Net position beginning of year	<u>138,882</u>
Net position end of year	<u>\$ 139,632</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Keokuk 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 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 Lee County Assessor's Conference Board.

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District's fiduciary fund is as follows:

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 - assigned and then unassigned fund balances.

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and governmental commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Land improvements	3,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

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	50 years
Land improvements	20 years
Intangibles	5 years
Machinery and equipment	5-12 years

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

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

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

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

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

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

Fund 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 preceding classifications.

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

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

E. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

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

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

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at amortized costs of \$4,488,379 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard and Poor's Financial Services.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects Statewide Sales, Services and Use Tax	<u>\$ 1,269,889</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's revenue bonded 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	\$ 870,063	0	54,712	815,351
Construction in progress	10,770,732	3,726,647	14,458,827	38,552
Total capital assets not being depreciated	<u>11,640,795</u>	<u>3,726,647</u>	<u>14,513,539</u>	<u>853,903</u>
Capital assets being depreciated:				
Buildings	27,584,531	13,392,055	0	40,976,586
Land improvements	1,715,340	1,093,405	0	2,808,745
Machinery and equipment	4,763,231	60,465	37,716	4,785,980
Total capital assets being depreciated	<u>34,063,102</u>	<u>14,545,925</u>	<u>37,716</u>	<u>48,571,311</u>
Less accumulated depreciation for:				
Buildings	9,866,996	797,767	0	10,664,763
Land improvements	979,893	124,963	0	1,104,856
Machinery and equipment	4,124,058	225,823	37,716	4,312,165
Total accumulated depreciation	<u>14,970,947</u>	<u>1,148,553</u>	<u>37,716</u>	<u>16,081,784</u>
Total capital assets being depreciated, net	<u>19,092,155</u>	<u>13,397,372</u>	<u>0</u>	<u>32,489,527</u>
Governmental activities capital assets, net	<u>\$ 30,732,950</u>	<u>17,124,019</u>	<u>14,513,539</u>	<u>33,343,430</u>
Business type activities:				
Machinery and equipment	\$ 934,644	14,251	0	948,895
Less accumulated depreciation	581,212	69,076	0	650,288
Business type activities capital assets, net	<u>\$ 353,432</u>	<u>(54,825)</u>	<u>0</u>	<u>298,607</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 79,173
Other	41,648
Support services:	
Operation and maintenance of plant	12,986
Transportation	92,016
	<u>225,823</u>
Unallocated depreciation	<u>922,730</u>
Total governmental activities depreciation expense	<u>\$ 1,148,553</u>
Business type activities:	
Food services	<u>\$ 69,076</u>

Note 5. Long-Term Debt

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 3,990,000	0	555,000	3,435,000	575,000
Revenue bonds	14,035,000	0	0	14,035,000	700,000
Termination benefits	1,118,062	17,815	417,167	718,710	384,718
Compensated absences	133,043	135,406	133,043	135,406	135,406
Total	<u>\$ 19,276,105</u>	<u>153,221</u>	<u>1,105,210</u>	<u>18,324,116</u>	<u>1,795,124</u>

General Obligation Bonds Payable

Details of the Districts June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue April 1, 2012			
	Interest Rate	Principal	Interest	Total
2014	0.50 %	\$ 575,000	31,415	606,415
2015	0.60	575,000	28,540	603,540
2016	0.80	575,000	25,090	600,090
2017	1.00	575,000	20,490	595,490
2018	1.20	575,000	14,740	589,740
2019	1.40	560,000	7,840	567,840
Total		<u>\$ 3,435,000</u>	<u>128,115</u>	<u>3,563,115</u>

Revenue Bonds Payable

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

Year Ending June 30,	Bond issue March 1, 2011			
	Interest Rate	Principal	Interest	Total
2014	3.50 %	\$ 700,000	556,888	1,256,888
2015	3.50	660,000	533,089	1,193,089
2016	3.50	625,000	510,601	1,135,601
2017	3.50	635,000	488,551	1,123,551
2018	4.00	655,000	464,339	1,119,339
2019-2023	3.25-4.00	3,665,000	1,930,707	5,595,707
2024-2028	4.10-4.60	4,445,000	1,126,631	5,571,631
2029-2030	4.60-4.75	2,650,000	153,974	2,803,974
Total		\$ 14,035,000	5,764,780	19,799,780

The District has pledged future statewide sales, services and use tax revenues to repay \$14,035,000 of bonds issued in March 1, 2012. The bonds were issued for the purpose of financing future energy projects in the District. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 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 77 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is 19,799,780. For the current year, \$569,139 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,639,280.

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

- a) \$1,269,139 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. The balance of the proceeds shall be deposited to the project account. The reserve account is part of the Capital Projects: Statewide Sales, Services and Use Tax Fund.
- b) All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Termination Benefits

The District offered a voluntary early retirement plan to its employees during fiscal year 2013. Employees must have completed at least twenty years of service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences, and be an active employee of the District.

The early retirement benefit for each eligible employee is equal to \$40 per unused sick days less applicable withholdings and deductions.

At June 30, 2013, the District has obligations to its participants with a total liability of \$718,710. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$417,167. The cost of early retirement payments expected to be paid are recorded as a long-term liability of the Governmental Activities in the Government-wide financial statements.

Note 6. Other Postemployment Benefits(OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug and dental benefits for employees, retirees and their spouses. There are 299 active and 78 retired members in the plan.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield. The dental benefit is administered by the Iowa School Employees Benefits Association. 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. There is no subsidy or OPEB liability which is associated with the Dental benefit.

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	\$ 127,727
Interest on net OPEB obligation	(3,786)
Adjustment to annual required contribution	8,369
Annual OPEB cost (expense)	<u>132,310</u>
Contributions made	<u>(470,903)</u>
Increase in net OPEB obligation	(338,593)
Net OPEB obligation - beginning of year	<u>(189,294)</u>
Net OPEB obligation - end of year	<u><u>\$ (527,887)</u></u>

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

For the year ended June 30, 2013, the District contributed \$470,903 to the medical plan.

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

Year Ended June 30,	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 103,955	386.4 %	\$ 54,261
2012	109,992	321.4	(189,294)
2013	132,310	355.9	(527,887)

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1.934 million with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.934 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$11.749 million 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, 2012 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 2.0% discount rate based on the District's funding policy. The projected annual medical trend rate is 8%. The ultimate medical trend rate is 3%. The medical trend rate is reduced by a percentage each year until reaching the 3% ultimate rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$851 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claim costs. 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 payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$1,066,370, \$993,132 and \$880,008 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Keokuk 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 \$806,756 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Categorical Funding

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

Project	Amount
Homeschool assistance program	\$ 332,979
Gifted and talented	135,901
Dropout and dropout prevention	11,801
Teacher salary supplement	117,313
Beginning administrator mentoring	1,500
Textbook aid for non-public students	1,130
Professional development, model core curriculum	122,602
Professional development	170,840
Total	<u>\$ 894,066</u>

Note 11. Construction Commitment

The District had entered into contracts totaling \$61,000 for improvements to the High School track. At June 30, 2013 costs of \$38,552 had been incurred against these contracts. The balance of \$22,448 remaining at June 30, 2013 will be paid out as work on the project progresses.

Note 12. Sale of Real Property

During the year ended June 30, 2013, the District received payment from McDonalds, USA, LLC of \$444,925 for the purchase of Middle School Lot along Main Street in Keokuk. This land was valued on the District’s books at \$54,712, resulting in a gain of \$390,213 to the District.

Note 13. Reconciliation of Governmental Fund Balances to Net Position

Reconciliation of certain governmental fund balances to net position is the following:

	Invested in Capital Assets	School Infrastructure	Management Levy	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	1,193,426	592,355	2,376,956	1,950,481
Capital assets, net of accumulated depreciation	33,343,430	-	-	-	-
General obligation bond capitalized indebtedness	(3,435,000)	-	-	-	-
Revenue bond capitalized indebtedness	(14,035,000)	-	-	-	-
Termination benefits	-	-	(592,355)	-	(126,355)
Accrued interest payable	-	-	-	(287,187)	-
Income surtax receivable	-	-	-	-	-
Compensated absences	-	-	-	-	(135,406)
Net OPEB asset	-	-	-	-	508,091
Net position (Exhibit A)	<u>\$ 15,873,430</u>	<u>1,193,426</u>	<u>-</u>	<u>2,089,769</u>	<u>2,196,811</u>

Keokuk Community School District

Required Supplementary Information

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 9,127,037	246,758	9,373,795	9,517,218	9,517,218	(143,423)
State sources	12,570,466	7,189	12,577,655	12,883,178	12,883,178	(305,523)
Federal sources	1,713,574	633,930	2,347,504	3,835,000	3,835,000	(1,487,496)
Total revenues	<u>23,411,077</u>	<u>887,877</u>	<u>24,298,954</u>	<u>26,235,396</u>	<u>26,235,396</u>	<u>(1,936,442)</u>
Expenditures/Expenses:						
Instruction	15,305,110	0	15,305,110	16,425,000	16,425,000	1,119,890
Support services	6,260,986	23,189	6,284,175	7,858,000	7,858,000	1,573,825
Non-instructional programs	12,439	980,890	993,329	1,750,000	1,750,000	756,671
Other expenditures	5,635,108	0	5,635,108	6,506,789	8,500,000	2,864,892
Total expenditures/expenses	<u>27,213,643</u>	<u>1,004,079</u>	<u>28,217,722</u>	<u>32,539,789</u>	<u>34,533,000</u>	<u>6,315,278</u>
Deficiency of revenues under expenditures/expenses	(3,802,566)	(116,202)	(3,918,768)	(6,304,393)	(8,297,604)	4,378,836
Other financing sources, net	444,925	0	444,925	0	0	444,925
Deficiency of revenues and other financing sources under expenditures/expenses	(3,357,641)	(116,202)	(3,473,843)	(6,304,393)	(8,297,604)	4,823,761
Balance beginning of year	11,048,219	490,949	11,539,168	8,736,541	8,736,541	2,802,627
Balance end of year	<u>\$ 7,690,578</u>	<u>374,747</u>	<u>8,065,325</u>	<u>2,432,148</u>	<u>438,937</u>	<u>7,626,388</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$1,993,211

KEOKUK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 4,104	\$ 4,104	0.0%	\$ 11,837	34.7%
2010	July 1, 2008	-	4,104	4,104	0.0%	12,644	32.5%
2011	July 1, 2010	-	1,687	1,687	0.0%	11,214	15.0%
2012	July 1, 2010	-	1,687	1,687	0.0%	12,306	13.7%
2013	July 1, 2012	-	1,934	1,934	0.0%	11,749	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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

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

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 579,388	71,774	651,162
Receivables:			
Property tax:			
Delinquent	12,967	0	12,967
Succeeding year	665,000	0	665,000
Total Assets	\$ 1,257,355	71,774	1,329,129
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 0	5,547	5,547
Deferred revenue:			
Succeeding year property tax	665,000	0	665,000
Total liabilities	665,000	5,547	670,547
Fund balances:			
Restricted for:			
Management levy purposes	592,355	0	592,355
Student activities	0	66,227	66,227
Total fund balances	592,355	66,227	658,582
Total Liabilities and Fund Balances	\$ 1,257,355	71,774	1,329,129

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 698,235	0	698,235
Other	24,594	281,487	306,081
Total revenues	722,829	281,487	1,004,316
Expenditures:			
Current:			
Instruction:			
Regular	363,664	0	363,664
Other	0	266,704	266,704
Support services:			
Administration	53,675	0	53,675
Operation and maintenance of plant	200,944	0	200,944
Transportation	33,270	0	33,270
Non-instructional programs:			
Food service operations	12,235	0	12,235
Total expenditures	663,788	266,704	930,492
Change in fund balances	59,041	14,783	73,824
Fund balances beginning of year	533,314	51,444	584,758
Fund balances end of year	\$ 592,355	66,227	658,582

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 2,196,424	614,767	2,811,191
Receivables:			
Delinquent	0	2,300	2,300
Succeeding year	0	133,940	133,940
Due from other governments	268,955	0	268,955
Total assets	\$ 2,465,379	751,007	3,216,386
Liabilities and fund balances			
Liabilities:			
Accounts payable	\$ 2,814	0	2,814
Deferred revenue			
Succeeding year property tax	0	133,940	133,940
Total liabilities	2,814	133,940	136,754
Fund balances:			
Restricted for:			
Debt service	1,269,139	0	1,269,139
School infrastructure	1,193,426	0	1,193,426
Physical plant and equipment	0	617,067	617,067
Total fund balances	2,462,565	617,067	3,079,632
Total liabilities and fund balances	\$ 2,465,379	751,007	3,216,386

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,639,280	130,563	1,769,843
Other	155,599	20	155,619
Federal sources	98,870	0	98,870
Total revenues	<u>1,893,749</u>	<u>130,583</u>	<u>2,024,332</u>
EXPENDITURES:			
Current:			
Support services:			
Administration	3,550	0	3,550
Operation and maintenance of plant	65,174	28,320	93,494
Transportation	0	33,261	33,261
Capital outlay	3,628,172	36,800	3,664,972
Total expenditures	<u>3,696,896</u>	<u>98,381</u>	<u>3,795,277</u>
Excess(Deficiency) of revenues over(under) expenditures	(1,803,147)	32,202	(1,770,945)
Other financing sources(uses):			
Transfers out	(1,269,889)	0	(1,269,889)
Change in fund balance before special item	(3,073,036)	32,202	(3,040,834)
Special item:			
Proceeds from the sale of real property(Note 12)	0	444,925	444,925
Change in fund balances	(3,073,036)	477,127	(2,595,909)
Fund balances beginning of year	<u>5,535,601</u>	<u>139,940</u>	<u>5,675,541</u>
Fund balances end of year	<u>\$ 2,462,565</u>	<u>617,067</u>	<u>3,079,632</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 DEBT SERVICE ACCOUNTS
 JUNE 30, 2013

	Debt Service		
	Debt Service	Sales Tax Debt Service	Total
Assets			
Cash and pooled investments	\$ 112,699	984,645	1,097,344
Receivables:			
Delinquent	10,473	0	10,473
Succeeding year	607,916	0	607,916
Total assets	\$ 731,088	984,645	1,715,733
Liabilities and fund balances			
Liabilities:			
Deferred revenue			
Succeeding year property tax	\$ 607,916	0	607,916
Fund balances:			
Restricted for:			
Debt service	123,172	984,645	1,107,817
Total liabilities and fund balances	\$ 731,088	984,645	1,715,733

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 DEBT SERVICE ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Debt Service		Total
	Debt Service	Sales Tax Debt Service	
REVENUES:			
Local sources:			
Local tax	\$ 594,398	0	594,398
Other	16	27	43
Total revenues	<u>594,414</u>	<u>27</u>	<u>594,441</u>
EXPENDITURES:			
Current:			
Support services:			
Administration	1,775	750	2,525
Long-term debt:			
Principal	555,000	0	555,000
Interest and fiscal charges	39,241	569,139	608,380
Total expenditures	<u>596,016</u>	<u>569,889</u>	<u>1,165,905</u>
Excess(Deficiency) of revenues over(under) expenditures	(1,602)	(569,862)	(571,464)
Other financing sources:			
Transfer in	0	1,269,889	1,269,889
Change in fund balance	(1,602)	700,027	698,425
Fund balances beginning of year	<u>124,774</u>	<u>284,618</u>	<u>409,392</u>
Fund balances end of year	<u>\$ 123,172</u>	<u>984,645</u>	<u>1,107,817</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- fund Transfers	Balance End of Year
HS interest earned	\$ 52	0	0	0	52
HS drama	1,000	2,844	3,819	0	25
HS speech	35	3,862	3,897	0	0
HS show choir	0	260	260	0	0
HS vocal music	0	6,328	6,328	0	0
HS instrument music	0	4,407	4,407	0	0
HS winterguard	0	868	868	0	0
HS tournaments	1,790	8,275	10,003	0	62
HS booster resale	0	19	19	0	0
HS cross country	0	785	785	0	0
HS boys basketball	952	12,118	9,032	0	4,038
HS football	2,490	19,773	12,974	0	9,289
HS soccer	1,365	1,547	1,062	1,242	3,092
HS baseball	0	6,574	6,574	0	0
HS boys track	0	4,404	4,404	0	0
HS boys tennis	0	2,502	2,502	0	0
HS boys golf	54	777	831	0	0
HS wrestling	0	7,697	7,697	0	0
HS girls basketball	881	8,846	7,051	0	2,676
HS volleyball	992	5,612	4,557	0	2,047
HS girls soccer	0	2,734	1,492	(1,242)	0
HS softball	0	6,925	6,925	0	0
HS girls track	0	1,725	1,525	0	200
HS girls tennis	109	353	462	0	0
HS girls golf	0	1,072	1,072	0	0
HS girls swimming	0	4,124	4,124	0	0
HS yearbook	240	20	0	0	260
HS general	20	1,432	249	0	1,203
HS summer drama	0	150	150	0	0
HS booster club	0	10,000	10,000	0	0
HS student newspaper	559	0	0	0	559
HS fallon student	2,514	0	0	0	2,514
HS science	853	0	0	0	853
HS student council	2,450	2,470	1,910	0	3,010
HS national honor society	0	2,910	2,789	0	121
HS spanish club	1,463	0	93	0	1,370
HS math club	11	19	30	0	0
HS class of 2012	1,411	0	1,411	0	0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 7

Account	Balance End of Year	Revenues	Expendi- tures	Intra- fund Transfers	Balance End of Year
HS class of 2013	1,087	716	1,803	0	0
HS class of 2014	1,294	2,070	3,364	0	0
HS class of 2015	0	214	214	0	0
HS gay straight alliance	777	0	527	0	250
HS athletics	0	11,748	11,748	0	0
HS special athletics	147	0	0	0	147
HS weight room	0	1,667	1,667	0	0
HS student activity	120	14,155	14,155	0	120
HS concessions	1,582	55,630	55,308	0	1,904
HS little feather	1,332	12,474	10,735	0	3,071
HS cheerleaders	1,865	6,445	5,473	0	2,837
HS special needs friends	52	13,849	13,901	0	0
HS bowling	609	249	373	0	485
HS misc. fundraisers	0	4,459	4,459	0	0
HS learning center	404	196	0	0	600
MS vocal music	249	566	815	0	0
MS instrument music	425	745	1,170	0	0
MS cross country	0	30	30	0	0
MS boys basketball	0	2,103	1,941	0	162
MS football	856	2,334	1,712	0	1,478
MS boys track	169	727	379	0	517
MS wrestling	0	653	425	0	228
MS girls basketball	42	1,714	1,595	0	161
MS volleyball	1,354	1,806	983	0	2,177
MS girls track	338	996	565	0	769
MS yearbook	281	280	561	0	0
MS language arts club	2,252	0	0	0	2,252
MS science club	2,022	857	1,347	0	1,532
MS math contests	2,441	917	942	0	2,416
MS SPED club	802	2,701	1,243	0	2,260
MS student athletes	3,232	700	2,316	0	1,616
MS sp athletes	124	0	0	0	124
MS student activities	6,256	7,871	7,075	0	7,052
MS learn connects	2,091	1,183	576	0	2,698
Total	<u>\$ 51,444</u>	<u>281,487</u>	<u>266,704</u>	<u>0</u>	<u>66,227</u>

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST
 JUNE 30, 2013

		Private Purpose Trust - Scholarship Fund										
		Black Sims Award	Kilborne Prize	William Aldrich Trust	Elizabeth Wilson Leake Award	Maude Marshall Hassall	William J. Sigmund Memorial	Edna Sears Trust	Wilber Erickson	Edna Meiroto	Min Chung	Total
ASSETS												
Cash and pooled investments	\$	604	10,272	3,770	13,136	11,234	8,665	7,725	7,034	52,686	24,506	139,632
LIABILITIES												
		0	0	0	0	0	0	0	0	0	0	0
NET POSITION												
Restricted for scholarships	\$	604	10,272	3,770	13,136	11,234	8,665	7,725	7,034	52,686	24,506	139,632

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust - Scholarship Fund											
	Black Sims	Kilborne	William	Elizabeth	Maude	William J.	Edna	Wilber	Edna	Min	Webb	
	Award	Prize	Aldrick	Wilson Leake	Marshall	Sigmund	Sears	Erickson	Meirotto	Chung	Scholarship	Total
ADDITIONS:												
Local sources:												
Gifts and contributions	\$ 0	0	0	0	0	0	0	0	0	0	6,638	6,638
Interest income	3	92	28	98	420	333	308	208	1,567	835	0	3,892
TOTAL ADDITIONS	3	92	28	98	420	333	308	208	1,567	835	6,638	10,530
DEDUCTIONS:												
Instruction:												
Regular:												
Scholarships awarded	0	69	346	367	420	0	300	200	1,440	0	6,638	9,780
Change in net position	3	23	(318)	(269)	0	333	8	8	127	835	0	750
Net position beginning of year	601	10,249	4,088	13,405	11,234	8,332	7,717	7,026	52,559	23,671	0	138,882
Net position end of year	\$ 604	10,272	3,770	13,136	11,234	8,665	7,725	7,034	52,686	24,506	0	139,632

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 8,344,915	8,184,637	7,806,793	7,897,093	7,616,356	7,606,715	7,855,095	7,274,081	7,376,009	7,560,279
Tuition	215,858	220,103	213,446	245,289	259,809	245,438	198,968	145,239	104,514	132,977
Other	566,264	587,788	584,991	478,922	676,673	969,653	1,054,607	812,557	665,075	738,371
Intermediate sources	0	0	0	0	0	178,312	210,708	237,966	248,905	17,335
State sources	12,570,466	12,391,925	12,786,294	11,894,011	13,491,287	13,397,397	12,272,932	11,526,565	10,542,467	9,658,197
Federal sources	1,713,574	2,407,985	3,283,591	3,164,595	1,634,007	1,250,991	1,746,675	1,981,714	3,155,731	2,281,121
Total	\$ 23,411,077	23,792,438	24,675,115	23,679,910	23,678,132	23,648,506	23,338,985	21,978,122	22,092,701	20,388,280
Expenditures:										
Instruction:										
Regular	\$ 9,165,549	8,595,597	8,579,351	8,880,479	9,280,408	8,464,617	7,943,690	7,535,015	7,564,211	7,201,553
Special	3,692,260	3,576,885	3,515,554	3,357,577	3,399,390	3,522,222	3,100,955	2,937,092	2,551,755	3,174,324
Other	2,447,301	2,277,468	2,769,315	2,676,714	2,282,900	2,205,656	2,079,130	1,927,481	2,020,546	1,112,618
Support services:										
Student	851,818	1,056,205	941,225	1,202,507	764,108	775,847	657,577	743,239	697,915	715,383
Instructional staff	506,334	535,395	607,845	563,412	549,095	496,602	517,981	522,756	420,808	421,299
Administration	2,346,800	2,277,609	2,315,953	2,442,702	2,406,456	2,243,438	2,230,343	2,140,048	1,947,395	1,834,299
Operation and maintenance										
of plant	2,026,538	1,877,404	1,752,493	1,949,854	1,816,588	1,860,690	1,799,722	1,889,550	1,814,974	1,749,993
Transportation	529,496	581,880	571,078	600,320	580,801	528,970	586,770	598,932	419,753	440,308
Other support	0	0	0	0	0	0	0	0	0	767
Non-instructional programs	12,439	10,797	505	185,731	254,758	445,944	541,631	695,083	916,281	828,507
Capital outlay	3,664,972	11,462,068	940,130	782,474	1,176,936	114,951	498,588	293,180	2,028,641	636,168
Long term debt:										
Principal	555,000	4,425,000	475,000	559,307	1,021,089	1,267,430	4,059,453	1,135,000	1,095,000	1,050,000
Interest and fiscal charges	608,380	641,132	182,355	198,084	223,437	269,379	430,057	441,233	487,442	531,523
Other expenditures:										
AEA flow-through	806,756	809,064	901,008	902,280	831,724	787,957	760,033	722,398	660,304	645,987
Total	\$ 27,213,643	38,126,504	23,551,812	24,301,441	24,587,690	22,983,703	25,205,930	21,581,007	22,625,025	20,342,729

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	75,645
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	511,893 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 13	5,956
			<u>593,494</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 13	<u>40,436</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3312-G	<u>632,437</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 13	<u>12,160</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 11	1,303
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 12	20,215
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 13	97,220
			<u>117,435</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 13	<u>98,870</u>
PARENTAL ASSISTANCE CENTERS	84.310	FY 11	<u>594</u>
RURAL EDUCATION ACHIEVEMENT PROGRAM	84.358	FY 12	27,360
RURAL EDUCATION ACHIEVEMENT PROGRAM	84.358	FY 13	38,719
			<u>66,079</u>
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS	84.334	FY 13	<u>33,326</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 13	<u>137,231</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VIA)	84.369	FY 13	<u>12,194</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 13	<u>113,420</u>
TOTAL			<u>\$ 1,857,676</u>

* - Includes \$49,939 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keokuk 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 Keokuk Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Keokuk 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 a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keokuk Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Keokuk Community School District's Responses to Findings

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

Purpose of this Report

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

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

February 20, 2014
Newton, Iowa

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

To the Board of Education of
Keokuk Community School District

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Keokuk 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 Keokuk Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

The management of Keokuk 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 Keokuk Community School District's internal control over compliance with requirements with the type of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Keokuk Community School District's internal control over compliance.

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

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2014
Newton, Iowa

KEOKUK 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 significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weakness in internal control over major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Program:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
 - Individual Programs:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keokuk Community School District did qualify as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-13 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however we noted purchase orders were being completed after the product had been ordered in the General Fund and the Student Activity Fund.

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

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

Response - We will implement procedures to ensure that all purchase orders have a purchase order with the proper authorization before orders are placed.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

Part IV: Other Findings Related to Required Statutory Reporting:

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

IV-B-13 Questionable Disbursements – During our audit we noted the following items as questionable disbursements. More specific examples of those instances of questioned items and recommendations are as follows:

Gift Cards: We noted during our audit that cash/gift cards were purchased from the Student Activity Fund to be given out to Math Club Tutors. Cash or gift cards given to students for these purposes does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place and make necessary adjustments to comply with the Attorney General's opinion dated April 25, 1979.

Response - Changes to the District's policies have been communicated to all staff to ensure that cash and/or gift card purchases are not allowed.

Conclusion - Response accepted.

Sales Tax Reimbursements: We noted that the District has credit cards which may be checked out for use by employees. We noted however, that reimbursements to employees for items purchased with personal credit cards for the full purchase price, including sales tax. As the District is a tax-exempt entity reimbursements for sales tax would not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review their procedures in place, and make necessary adjustments to comply with the Attorney General's opinion dated April 25, 1979.

Response - All items that were purchased with a personal credit card will be reviewed to ensure any sales taxes paid are not reimbursed.

Conclusion - Response accepted.

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

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

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

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

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

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

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

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

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

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

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

Beginning balance		\$ 5,535,601
Revenues:		
Sales tax revenues	\$ 1,639,280	
Other local revenues	155,599	
Federal revenues	98,870	1,893,749
		<u>7,429,350</u>
Expenditures/transfers out:		
School infrastructure construction	3,628,172	
Other	68,724	
Transfers to other funds:		
Debt service fund	1,269,889	4,966,785
		<u>4,966,785</u>
Ending balance		<u>\$ 2,462,565</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 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District needs to have the Board president sign all contracts the District enters into to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - All officiating contracts will be signed by the board president.

Conclusion - Response accepted.