

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

JUNE 30, 2014

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**Creston Community School District**

**Officials**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
<b>Board of Education</b>		
<b>(Before September 2013 Election)</b>		
Sharon Snodgrass	President	2013
Galen Zumbach	Vice President	2013
Rich Flynn	Board Member	2013
Ron Dunphy	Board Member	2015
Rick Fyock	Board Member	2015
<b>(After September 2013 Election)</b>		
Ron Dunphy	President	2015
Galen Zumbach	Vice President	2017
Shanon Snodgrass	Board Member	2017
Rick Fyock	Board Member	2015
Tom Eagan	Board Member	2017
<b>School Officials</b>		
Steve McDermott	Superintendent	2014
Roy Stroud	Board Secretary/Business Manager	2014
Pat Moeller	District Treasurer	2014
Gruhn Law Firm	Attorney	2014

*CRESTON COMMUNITY SCHOOL DISTRICT*

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

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Education of the Creston Community School District:**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Creston Community School District, Creston, Iowa as of and for the year ended June 30, 2014, 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 propose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of account policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Creston Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

**Members American Institute & Iowa Society of Certified Public Accountants**

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Creston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2015, on our consideration of Creston Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Creston Community School District's internal control over financial reporting and compliance.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 19, 2015  
Newton, Iowa

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

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Creston Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2014 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$14,739,238 in fiscal year 2013 to \$14,774,024 in fiscal year 2014, while General Fund expenditures increased from \$15,081,769 in fiscal year 2013 to \$15,453,928 in fiscal year 2014. The District's General Fund balance decreased from \$1,440,908 at June 30, 2013 to a balance of \$761,004 at June 30, 2014, a 47.19% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in amounts received for tuition and state source revenues. The increase in expenditures can be attributed to the increase in expenditures in the support services functional area.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Creston Community School District as a whole and present an overall view of the District's finances.

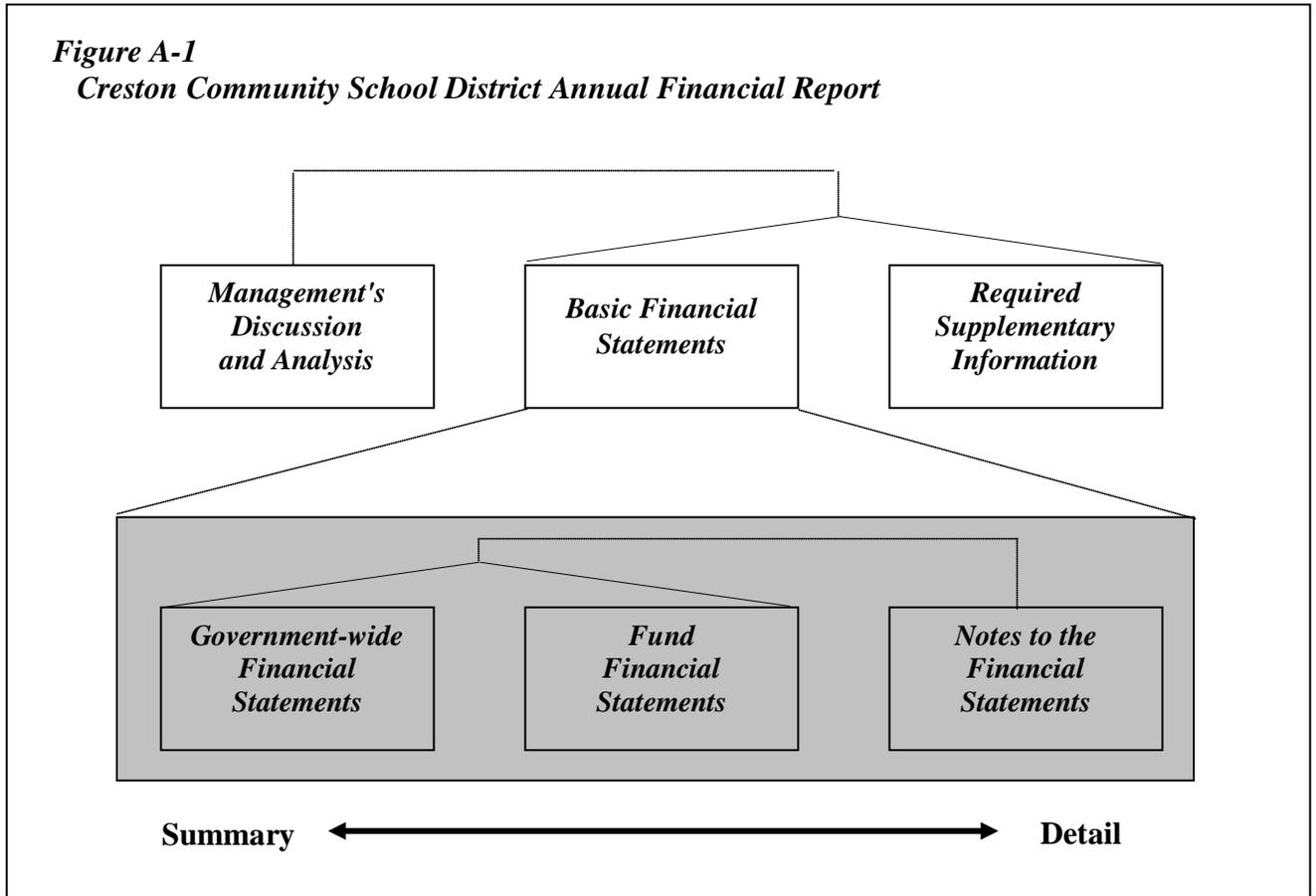
The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Creston Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Creston Community School District acts solely as an agent or custodial for the benefit of those outside of the District.

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

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

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

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



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

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District’s assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. 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 is one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net position are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health, additional non-financial factors, such as changes in the District’s property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

## **Fund Financial Statements**

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

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

The District has two kinds of funds:

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

**Figure A-3** below provides a summary of the District's net position at June 30, 2014 compared to June 30, 2013.

Figure A-3							
Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 10,172,151	10,658,772	424,076	433,786	10,596,227	11,092,558	-4.47%
Capital assets	25,013,602	23,213,487	104,217	123,157	25,117,819	23,336,644	7.63%
Total assets	<u>35,185,753</u>	<u>33,872,259</u>	<u>528,293</u>	<u>556,943</u>	<u>35,714,046</u>	<u>34,429,202</u>	<u>3.73%</u>
Long-term liabilities	7,901,250	8,915,944	2,049	1,342	7,903,299	8,917,286	-11.37%
Other liabilities	2,078,550	2,392,308	60,681	57,570	2,139,231	2,449,878	-12.68%
Total liabilities	<u>9,979,800</u>	<u>11,308,252</u>	<u>62,730</u>	<u>58,912</u>	<u>10,042,530</u>	<u>11,367,164</u>	<u>-11.65%</u>
Deferred inflows of resources	5,101,181	5,045,890	-	-	5,101,181	5,045,890	1.10%
Net position:							
Net investment in capital assets	17,278,602	14,493,487	104,217	123,157	17,382,819	14,616,644	18.92%
Restricted	2,555,075	1,905,528	-	-	2,555,075	1,905,528	34.09%
Unrestricted	271,095	1,119,102	361,346	374,874	632,441	1,493,976	-57.67%
Total net position	<u>\$ 20,104,772</u>	<u>17,518,117</u>	<u>465,563</u>	<u>498,031</u>	<u>20,570,335</u>	<u>18,016,148</u>	<u>14.18%</u>

The District's combined net position increased by 14.18% or approximately \$2,554,187 over the prior year. The largest portion of the District's net position is the invested in capital assets, (e.g., land, infrastructure, 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 represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position increased \$649,547 or 34.09% over the prior year. The increase in restricted fund balance is mainly attributable to increases in the ending fund balance of the Capital Projects: Statewide Sales, Services and Use Tax Fund and in increase in carryover of categorical funding at year end.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirements - decreased \$861,535 or 57.67%. The decrease in unrestricted net position was due mainly to the decrease in ending fund balance for the General Fund.

**Figure A-4** shows the changes in net position for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for service	\$ 1,438,403	1,270,432	282,167	272,410	1,720,570	1,542,842	11.52%
Operating grants, contributions and restricted interest	1,846,407	2,022,957	582,169	567,563	2,428,576	2,590,520	-6.25%
Capital grants, contributions and restricted interest	2,104,356	81,798	-	-	2,104,356	81,798	2472.63%
General revenues:							
Property tax	5,057,469	5,077,542	-	-	5,057,469	5,077,542	-0.40%
Income surtax	138,051	134,039			138,051	134,039	
Statewide sales, services and use tax	1,224,085	1,184,539	-	-	1,224,085	1,184,539	3.34%
Unrestricted state grants	8,126,572	7,766,422	-	-	8,126,572	7,766,422	4.64%
Unrestricted investment earnings	3,733	5,721	377	331	4,110	6,052	-32.09%
Other	120,971	154,569	1,909	2,967	122,880	157,536	-22.00%
Total revenues	20,060,047	17,698,019	866,622	843,271	20,926,669	18,541,290	12.87%
Program expenses:							
Instructional	11,230,041	11,019,489	-	-	11,230,041	11,019,489	1.91%
Support services	4,802,110	4,978,465	101,896	92,706	4,904,006	5,071,171	-3.30%
Non-instructional programs	-	8,595	797,194	759,638	797,194	768,233	3.77%
Other expenses	1,529,232	1,473,267	-	-	1,529,232	1,473,267	3.80%
Total expenses	17,561,383	17,479,816	899,090	852,344	18,460,473	18,332,160	0.70%
Change in net position before extraordinary item	2,498,664	218,203	(32,468)	(9,073)	2,466,196	209,130	1079.26%
Extraordinary item:							
Compensation for loss of capital assets	87,991	2,136,013	-	-	87,991	2,136,013	-95.88%
Change in net position	2,586,655	2,354,216	(32,468)	(9,073)	2,554,187	2,345,143	8.91%
Net position beginning of year	17,518,117	15,163,901	498,031	507,104	18,016,148	15,671,005	14.96%
Net position end of year	\$ 20,104,772	17,518,117	465,563	498,031	20,570,335	18,016,148	14.18%

Property tax and unrestricted state grants accounted for 65.72% of the revenue from governmental activities while charges for service and sales and operating grants and contributions accounted for 99.74% of the revenue from business type activities.

The District's total revenues were approximately \$20.93 million of which approximately \$20.06 million was for governmental activities and approximately \$0.87 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 12.87% increase in revenues and a 0.70% increase in expenses. The increase in revenues was funded by an increase in capital grants, contributions and restricted interest which was more than enough to covered the increase in expenses which primarily occurred in the instructional functional area.

## Governmental Activities

Revenues for governmental activities were \$20,060,047 and expenses were \$17,561,383, for the year ended June 30, 2014.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs, long-term debt interest and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013.

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 11,230,041	11,019,489	1.87%	8,611,604	8,324,592	3.33%
Support services	4,802,110	4,978,465	-3.67%	2,600,214	4,836,126	-85.99%
Non-instructional programs	-	8,595	-100.00%	-	8,595	-100.00%
Long-term debt interest	187,506	276,702	-47.57%	187,506	276,702	-47.57%
Other expenses	1,341,726	1,196,565	10.82%	772,893	658,614	14.79%
Totals	\$ 17,561,383	17,479,816	0.46%	12,172,217	14,104,629	-15.88%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$1,438,403.
- Federal and state governments, along with contributions from local sources subsidized certain programs with grants and contributions totaling \$3,950,763.
- The net cost of governmental activities was financed with \$5,057,469 in property tax, \$138,051 in income surtax, \$1,224,085 in statewide sales, services and use tax, \$8,126,572 in unrestricted state grants, \$3,733 in interest income and \$120,971 in other general revenues.

## Business type Activities

Revenues of the District's business type activities during the year ended June 30, 2014, were \$866,622 and expenses totaled \$899,090. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income and other general revenues.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,893,439, below last year's ending fund balances of \$3,124,229. One reason for the decrease in combined fund balances can be attributed to the decrease in fund balance for the General Fund.

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## **Governmental Fund Highlights**

- The General Fund balance decreased from \$1,440,908 at June 30, 2013 to \$761,004 at June 30, 2014. The District's declining General Fund financial position is the product of many factors. Increases in state and tuition source revenues led to the increase in General Fund revenues. However, this increase in revenues was not enough to offset the increase in expenditures. The increase in expenditures can be attributed to the increase in expenditures in the support services functional area.
- The Capital Projects Accounts balance increased from \$1,265,904 at June 30, 2013 to \$1,866,654 at June 30, 2014. This increase in Capital Projects Accounts balance was primarily due to increases in federal and state source revenues received from the Federal Department of Homeland Security and the Iowa Department of Homeland Security and Emergency Management to be used for District construction projects.
- The Debt Service Fund balance increased from \$18,868 at June 30, 2013 to \$20,807 at June 30, 2014. The increase was the result of a decrease in principal and interest expense incurred during the year. Total revenues exceeded expenditures ensuring an increase in ending fund balance.

## **Proprietary Fund Highlights**

The School Nutrition Fund net position decreased from \$498,031 at June 30, 2013 to \$465,563 at June 30, 2014, representing a decrease of 6.52%. Although Nutrition Fund revenues increased during the year they were not enough to offset the increase in expenditures ensuring a decrease in net position.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$1,316,825 less than budgeted revenues, a variance of 5.92%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

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

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2014, the District had invested \$25,117,819, 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 7.63% from the previous year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$938,316.

The original cost of the District's capital assets was \$36,995,075. Governmental funds account for \$36,395,547 with \$599,528 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,151,570 at June 30, 2013, compared to \$183,710 reported at June 30, 2014. This decrease in construction in progress can be attributed to completion of the Elementary and High School Safe Room during the year and the capitalization of both projects on the District's capital asset listing.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 172,426	172,426	-	-	172,426	172,426	0.00%
Construction in progress	183,710	2,151,570	-	-	183,710	2,151,570	-91.46%
Buildings	22,867,223	18,961,277	-	-	22,867,223	18,961,277	20.60%
Land improvements	1,508,596	1,609,958	-	-	1,508,596	1,609,958	-6.30%
Machinery and equipment	281,647	318,256	104,217	123,157	385,864	441,413	-12.58%
Total	\$ 25,013,602	23,213,487	104,217	123,157	25,117,819	23,336,644	7.63%

### Long-Term Debt

At June 30, 2014, the District had long-term debt outstanding of \$7,903,299 in general obligation bonds, capital loan notes and other long-term debt. This represents a decrease of 11.37% from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

As of June 30, 2014, the District had total outstanding general obligation bonded indebtedness of \$7,560,000 payable from the Debt Service Fund.

As of June 30, 2014, the District had total outstanding capital loan notes payable of \$175,000, payable from the Capital Projects: Physical Plant and Equipment Levy Fund.

As of June 30, 2014, the District had total termination benefits payable of \$50,000. \$40,000 of this total is payable from the Management Levy Fund and \$10,000 from the General Fund.

As of June 30, 2014, the District had outstanding compensated absences of \$17,795. \$17,535 of this total is attributable to Governmental activities and \$260 to business type activities.

As of June 30, 2014, the District had a net OPEB liability of \$100,504. \$98,715 is attributable to Governmental activities while the remaining \$1,789 is attributable to business type activities

Figure A-7  
Outstanding Long-Term Liabilities

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
General obligation bonds	\$ 7,560,000	8,375,000	-	-	7,560,000	8,375,000	-9.73%
Capital loan notes	175,000	345,000	-	-	175,000	345,000	-49.28%
Termination benefits	50,000	130,000	-	-	50,000	130,000	-61.54%
Compensated absences	17,535	30,729	260	704	17,795	31,433	-43.39%
Net OPEB liability	98,715	35,215	1,789	638	100,504	35,853	180.32%
Total	\$ 7,901,250	8,915,944	2,049	1,342	7,903,299	8,917,286	-11.37%

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## **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 Creston CSD is still affected financially from the April 2011 tornado. The district has had more expenses from that disaster that were not recouped from Disaster Recovery Fund.
- With the implementation of GASB Statement No. 68 in FY15, the District is expected to book a liability on financial statements associated with the District's share of its IPERS liability. This is expected to negatively impact the District's financial statements.
- Creston CSD has worked through the process to consolidate with Prescott CSD. If the vote by each District passes the two Districts' will be consolidated in the 2016-17 school year.

## **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 Billie Jo Greene, Board Secretary/Business Manager, Creston Community School District, 801 N Elm, Creston, Iowa, 50801.

**BASIC FINANCIAL STATEMENTS**

CRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 3,570,725	394,666	3,965,391
Receivables:			
Property tax:			
Delinquent	76,112	-	76,112
Succeeding year	5,101,181	-	5,101,181
Income surtax	127,787	-	127,787
Accounts	107,504	1,198	108,702
Due from other governments	1,188,842	1,359	1,190,201
Inventories	-	26,853	26,853
Capital assets, net of accumulated depreciation	25,013,602	104,217	25,117,819
<b>TOTAL ASSETS</b>	<b>35,185,753</b>	<b>528,293</b>	<b>35,714,046</b>
<b>LIABILITIES</b>			
Accounts payable	516,759	833	517,592
Retainage payable	29,370	-	29,370
Salaries and benefits payable	1,503,473	51,761	1,555,234
Accrued interest payable	28,948	-	28,948
Unearned revenue	-	8,087	8,087
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	830,000	-	830,000
Capital loan notes payable	175,000	-	175,000
Termination benefits payable	50,000	-	50,000
Compensated absences payable	17,535	260	17,795
Portion due after one year:			
General obligation bonds	6,730,000	-	6,730,000
Net OPEB liability	98,715	1,789	100,504
<b>TOTAL LIABILITIES</b>	<b>9,979,800</b>	<b>62,730</b>	<b>10,042,530</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable property tax revenue	5,101,181	-	5,101,181
<b>NET POSITION</b>			
Net investment in capital assets	17,278,602	104,217	17,382,819
Restricted for:			
Categorical funding	483,447	-	483,447
Management levy purposes	81,350	-	81,350
Student activities	123,624	-	123,624
School infrastructure	1,455,700	-	1,455,700
Physical plant and equipment	410,954	-	410,954
Unrestricted	271,095	361,346	632,441
<b>TOTAL NET POSITION</b>	<b>\$ 20,104,772</b>	<b>465,563</b>	<b>20,570,335</b>

SEE NOTES TO FINANCIAL STATEMENTS.

**CRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014**

	Program Revenues			Net (Expense) Revenue and Change in Net Position			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 6,465,776	611,784	113,507	-	(5,740,485)	-	(5,740,485)
Special	2,456,273	376,149	171,707	-	(1,908,417)	-	(1,908,417)
Other	2,307,992	386,970	958,320	-	(962,702)	-	(962,702)
	<u>11,230,041</u>	<u>1,374,903</u>	<u>1,243,534</u>	<u>-</u>	<u>(8,611,604)</u>	<u>-</u>	<u>(8,611,604)</u>
Support services:							
Student	498,793	-	-	-	(498,793)	-	(498,793)
Instructional staff	432,772	-	-	-	(432,772)	-	(432,772)
Administration	1,566,502	20,709	-	-	(1,545,793)	-	(1,545,793)
Operation and maintenance of plant	1,632,160	19,510	-	2,104,356	491,706	-	491,706
Transportation	671,883	23,281	34,040	-	(614,562)	-	(614,562)
	<u>4,802,110</u>	<u>63,500</u>	<u>34,040</u>	<u>2,104,356</u>	<u>(2,600,214)</u>	<u>-</u>	<u>(2,600,214)</u>
Long-term debt interest	187,506	-	-	-	(187,506)	-	(187,506)
Other expenses:							
AEA flowthrough	568,833	-	568,833	-	-	-	-
Depreciation(unallocated)*	772,893	-	-	-	(772,893)	-	(772,893)
	<u>1,341,726</u>	<u>-</u>	<u>568,833</u>	<u>-</u>	<u>(772,893)</u>	<u>-</u>	<u>(772,893)</u>
Total governmental activities	<u>17,561,383</u>	<u>1,438,403</u>	<u>1,846,407</u>	<u>2,104,356</u>	<u>(12,172,217)</u>	<u>-</u>	<u>(12,172,217)</u>
Business type activities:							
Support services:							
Administration	78,916	-	-	-	(78,916)	(78,916)	(78,916)
Operation and maintenance of plant	22,980	-	-	-	(22,980)	(22,980)	(22,980)
Total support services	<u>101,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(101,896)</u>	<u>(101,896)</u>	<u>(101,896)</u>
Non-instructional programs:							
Nutrition services	797,194	282,167	582,169	-	-	67,142	67,142
Total business type activities	<u>899,090</u>	<u>282,167</u>	<u>582,169</u>	<u>-</u>	<u>-</u>	<u>(34,754)</u>	<u>(34,754)</u>
Total	<u>\$ 18,460,473</u>	<u>1,720,570</u>	<u>2,428,576</u>	<u>2,104,356</u>	<u>(12,172,217)</u>	<u>(34,754)</u>	<u>(12,206,971)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes				\$ 4,083,238	-	4,083,238	
Debt service				744,045	-	744,045	
Capital outlay				230,186	-	230,186	
Income surtax				138,051	-	138,051	
Statewide sales, services and use tax				1,224,085	-	1,224,085	
Unrestricted state grants				8,126,572	-	8,126,572	
Unrestricted investment earnings				3,733	377	4,110	
Other				120,971	1,909	122,880	
Total general revenues				<u>14,670,881</u>	<u>2,286</u>	<u>14,673,167</u>	
Change in net position before extraordinary item				2,498,664	(32,468)	2,466,196	
Extraordinary item(Note 15):							
Compensation for loss of capital assets				87,991	-	87,991	
Change in net position				2,586,655	(32,468)	2,554,187	
Net position beginning of year				17,518,117	498,031	18,016,148	
Net position end of year				<u>\$ 20,104,772</u>	<u>465,563</u>	<u>20,570,335</u>	

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

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 1,619,501	1,698,184	9,965	242,933	3,570,583
Receivables:					
Property tax:					
Delinquent	56,596	3,354	10,842	5,320	76,112
Succeeding year	3,527,497	218,121	998,562	357,001	5,101,181
Income surtax	-	127,787	-	-	127,787
Accounts	104,808	192	-	2,504	107,504
Due from other governments	992,948	195,894	-	-	1,188,842
<b>TOTAL ASSETS</b>	<b>\$ 6,301,350</b>	<b>2,243,532</b>	<b>1,019,369</b>	<b>607,758</b>	<b>10,172,009</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 509,376	1,600	-	5,783	516,759
Retainage payable	-	29,370	-	-	29,370
Salaries and benefits payable	1,503,473	-	-	-	1,503,473
Total liabilities	2,012,849	30,970	-	5,783	2,049,602
Deferred inflows of resources:					
Unavailable revenue:					
Succeeding year property tax	3,527,497	218,121	998,562	357,001	5,101,181
Income surtax	-	127,787	-	-	127,787
Total deferred inflows of resources	3,527,497	345,908	998,562	357,001	5,228,968
Fund balances:					
Restricted for:					
Categorical funding	483,447	-	-	-	483,447
Debt service	-	-	20,807	-	20,807
Management levy purposes	-	-	-	121,350	121,350
Student activities	-	-	-	123,624	123,624
School infrastructure	-	1,455,700	-	-	1,455,700
Physical plant and equipment	-	410,954	-	-	410,954
Unassigned	277,557	-	-	-	277,557
Total fund balances	761,004	1,866,654	20,807	244,974	2,893,439
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 6,301,350</b>	<b>2,243,532</b>	<b>1,019,369</b>	<b>607,758</b>	<b>10,172,009</b>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2014

<b>Total fund balances of governmental funds(page 20)</b>	\$	2,893,439
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		25,013,602
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.		(28,948)
Accounts receivable income surtax are not yet available to finance expenditures, and therefore, are recognized as deferred inflows of resources in the governmental funds.		127,787
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		142
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, termination benefits payable, compensated absences payable, and other postemployment benefits are not due and payable in the current period and, are not reported as liabilities in the governmental funds.		<u>(7,901,250)</u>
<b>Net position of governmental activities(page 18)</b>	\$	<u><u>20,104,772</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2014

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 3,732,419	368,080	744,045	350,819	5,195,363
Tuition	844,227	-	-	-	844,227
Other	374,931	17,682	-	481,508	874,121
State sources	9,183,208	1,471,772	374	191	10,655,545
Federal sources	633,848	1,856,786	-	-	2,490,634
Total revenues	14,768,633	3,714,320	744,419	832,518	20,059,890
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	6,204,337	-	-	276,113	6,480,450
Special	2,446,459	-	-	-	2,446,459
Other	1,840,353	-	-	495,127	2,335,480
	10,491,149	-	-	771,240	11,262,389
Support services:					
Student	496,078	-	-	-	496,078
Instructional staff	435,295	-	-	-	435,295
Administration	1,565,179	-	-	-	1,565,179
Operation and maintenance of plant	1,284,465	4,728	-	424,564	1,713,757
Transportation	612,929	-	-	28,742	641,671
	4,393,946	4,728	-	453,306	4,851,980
Capital outlay	-	2,525,890	-	-	2,525,890
Long-term debt:					
Principal	-	-	985,000	-	985,000
Interest and fiscal charges	-	-	189,970	-	189,970
	-	-	1,174,970	-	1,174,970
Other expenditures:					
AEA flowthrough	568,833	-	-	-	568,833
Total expenditures	15,453,928	2,530,618	1,174,970	1,224,546	20,384,062
Excess(Deficiency) of revenues over (under) expenditures	(685,295)	1,183,702	(430,551)	(392,028)	(324,172)
Other financing sources(uses):					
Transfer in	-	-	432,490	150,462	582,952
Transfer out	-	(582,952)	-	-	(582,952)
Compensation for loss of capital assets	-	-	-	87,991	87,991
Insurance proceeds	5,391	-	-	-	5,391
Total other financing sources(uses)	5,391	(582,952)	432,490	238,453	93,382
Change in fund balances	(679,904)	600,750	1,939	(153,575)	(230,790)
Fund balance beginning of year	1,440,908	1,265,904	18,868	398,549	3,124,229
Fund balance end of year	\$ 761,004	1,866,654	20,807	244,974	2,893,439

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2014

Change in fund balances - total governmental funds(page 22) \$ (230,790)

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

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

Capital outlay	\$ 2,712,574	
Depreciation expense	(908,141)	
Loss on asset disposal	(4,318)	
	1,800,115	1,800,115

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year repayments are as follows:

985,000

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.

2,464

Income surtax account receivable is not available to finance current year expenditures and is recognized as deferred inflows of resources in the governmental funds.

157

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

15

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

Termination benefits	\$ 80,000	
Compensated absences	13,194	
Other postemployment benefits	(63,500)	
	29,694	29,694

Change in net position of governmental activities(page 19) \$ 2,586,655

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2014

	Business Type Activities: School Nutrition	Governmental Activities: Internal Service
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments	\$ 394,666	142
Accounts receivable	1,198	-
Due from other governments	1,359	-
Inventories	26,853	-
Total current assets	<u>424,076</u>	<u>142</u>
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	104,217	-
<b>TOTAL ASSETS</b>	<u>528,293</u>	<u>142</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	833	-
Salaries and benefits payable	51,761	-
Unearned revenue	8,087	-
Total current liabilities	<u>60,681</u>	<u>-</u>
Noncurrent liabilities:		
Compensated absences	260	-
Net OPEB liability	1,789	-
Total noncurrent liabilities	<u>2,049</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>62,730</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	104,217	-
Unrestricted	361,346	142
<b>TOTAL NET POSITION</b>	<u>\$ 465,563</u>	<u>142</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

	Business Type Activities:	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 282,167	-
Miscellaneous	1,909	1,078,548
<b>TOTAL OPERATING REVENUES</b>	<b>284,076</b>	<b>1,078,548</b>
OPERATING EXPENSES:		
Instruction:		
Regular:		
Benefits	-	1,078,548
Support services:		
Administration:		
Salaries	60,238	-
Benefits	15,509	-
Services	3,169	-
Operation and maintenance of plant:		
Services	22,980	-
Total support services	101,896	-
Non-instructional programs:		
Food service operations:		
Salaries	257,657	-
Benefits	57,308	-
Services	2,844	-
Supplies	446,505	-
Other	733	-
Depreciation	30,175	-
Total non-instructional programs	795,222	-
<b>TOTAL OPERATING EXPENSES</b>	<b>897,118</b>	<b>1,078,548</b>
<b>OPERATING LOSS</b>	<b>(613,042)</b>	<b>-</b>
NON-OPERATING REVENUES(EXPENSES):		
Loss on disposal of assets	(1,972)	-
Interest income	377	15
State sources	7,704	-
Federal sources	574,465	-
<b>TOTAL NON-OPERATING REVENUES(EXPENSES)</b>	<b>580,574</b>	<b>15</b>
Change in net position	(32,468)	15
Net position beginning of year	498,031	127
Net position end of year	\$ 465,563	142

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2014

	Business Type Activities: School Nutrition	Governmental Activities: Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 279,487	-
Cash received from miscellaneous operating activities	1,909	1,078,548
Cash payments to employees for services	(384,681)	-
Cash payments to suppliers for goods or services	(412,236)	(1,078,548)
Net cash used in operating activities	(515,521)	-
Cash flows from non-capital financing activities:		
State grants received	7,704	-
Federal grants received	519,602	-
Net cash provided by non-capital financing activities	527,306	-
Cash flows from investing activities:		
Interest on investments	377	15
Cash flows from capital financing activities:		
Purchase of assets	(13,207)	-
Net increase(decrease) in cash and cash equivalents	(1,045)	15
Cash and cash equivalents beginning of year	395,711	127
Cash and cash equivalents end of year	\$ 394,666	142
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (613,042)	-
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	58,141	-
Depreciation	30,175	-
Decrease in inventories	5,021	-
Decrease in accounts receivable	366	-
Increase in accounts payable	833	-
Increase in salaries and benefits payable	5,324	-
Decrease in unearned revenue	(3,046)	-
Decrease in accrued compensated absences	(444)	-
Increase in other postemployment benefits	1,151	-
Net cash used in operating activities	\$ (515,521)	-

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$58,141.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

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

**A. Reporting Entity**

For financial reporting purposes, Creston Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Creston Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

**B. Basis of Presentation**

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

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

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position is often subject to constraints 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 that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor proprietary fund:

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

The District reports the following other proprietary fund:

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

### **C. Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

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

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

#### **D. Assets, Liabilities, Deferred Inflows of Resources and Fund Balances**

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

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

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

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

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

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

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the

related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist property tax receivables and other receivables not collected within sixty days after year end.

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

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

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

*Unassigned* - All amounts not included in other spendable classifications.

**E. Budgets and Budgetary Accounting**

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

**Note 2. Cash and Pooled Investments**

The District’s deposits at June 30, 2014 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,324,593 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust were both rated AAA by Standard and Poor’s Financial Services.

**Note 3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
Disaster Recovery	Capital Projects: Statewide Sales, Services and Use Tax	\$ 150,462
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	250,000
Debt Service	Capital Projects: Physical Plant and Equipment Levy	182,490
Total		<u>\$ 582,952</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Disaster Recovery Fund was needed to close the Disaster Recovery Fund at year end.

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

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

**Note 4. Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental Activities:</b>					
General obligation bonds	\$ 8,375,000	-	815,000	7,560,000	830,000
Capital loan notes	345,000	-	170,000	175,000	175,000
Termination benefits	130,000	-	80,000	50,000	50,000
Compensated absences	30,729	17,535	30,729	17,535	17,535
Net OPEB liability	35,215	63,500	-	98,715	-
Total	\$ 8,915,944	81,035	1,095,729	7,901,250	1,072,535
<b>Business Type Activities:</b>					
Compensated absences	\$ 704	260	704	260	260
Net OPEB liability	638	1,151	-	1,789	-
Total	\$ 1,342	1,411	704	2,049	260

**General Obligation Bonds Payable**

Details of the District's June 30, 2014 General Obligation bond indebtedness is as follows:

Year Ending June 30,	Bond Issue of June 7, 2012			Bond Issue of September 1, 2010			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2014	0.60 %	\$ 120,000	21,503	1.50 %	\$ 710,000	146,060	830,000	167,563	997,563
2016	0.75	115,000	20,783	1.80	730,000	135,410	845,000	166,843	1,011,843
2017	1.00	120,000	19,920	2.10	735,000	122,270	855,000	155,330	1,010,330
2018	1.15	120,000	18,720	2.25	750,000	106,835	870,000	140,990	1,010,990
2019	1.35	115,000	17,340	2.50	775,000	89,960	890,000	124,175	1,014,175
2020-2023	1.55-2.10	810,000	50,694	2.70-3.00	2,460,000	144,920	3,270,000	195,614	3,465,614
Total		\$ 1,400,000	148,960		\$ 6,160,000	745,455	\$ 7,560,000	950,515	8,510,515

**Capital Loan Notes Payable**

The District has principal of \$175,000 and interest of \$6,125 remaining to pay during fiscal year 2015 to extinguish the capital loan notes payable debt dated March 1, 2004. The capital loan notes have an interest rate of 3.50% and will be paid from the Capital Projects: Physical Plant and Equipment Levy Fund.

### **Termination Benefits Payable**

The District did not offer a voluntary early retirement incentive to District employees during fiscal year 2014. However the District has outstanding liabilities to prior year retirees as follows;

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

Early retirement incentives for each eligible employee is equal to a percentage of the employee's basic yearly salary and one day's pay of that salary for each two days of unused accumulated sick leave not to exceed a maximum benefit of \$20,000.

At June 30, 2014, the District has obligations to five participants with a total liability of \$50,000. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$80,000.

### **Note 5. Capital Assets**

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 172,426	-	-	172,426
Construction in progress	2,151,570	2,609,617	4,577,477	183,710
Total capital assets not being depreciated	2,323,996	2,609,617	4,577,477	356,136
Capital assets being depreciated:				
Buildings	26,991,657	4,577,477	-	31,569,134
Land improvements	2,352,926	-	-	2,352,926
Machinery and equipment	2,024,873	102,957	10,479	2,117,351
Total capital assets being depreciated	31,369,456	4,680,434	10,479	36,039,411
Less accumulated depreciation for:				
Buildings	8,030,380	671,531	-	8,701,911
Land improvements	742,968	101,362	-	844,330
Machinery and equipment	1,706,617	135,248	6,161	1,835,704
Total accumulated depreciation	10,479,965	908,141	6,161	11,381,945
Total capital assets being depreciated, net	20,889,491	3,772,293	4,318	24,657,466
Governmental activities capital assets, net	\$ 23,213,487	6,381,910	4,581,795	25,013,602
Business type activities:				
Machinery and equipment	\$ 594,653	13,207	8,332	599,528
Less accumulated depreciation	471,496	30,175	6,360	495,311
Business type activities capital assets, net	\$ 123,157	(16,968)	1,972	104,217

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 28,812
Other	10,384
Support services:	
Student	10,521
Administration	4,890
Operation and maintenance of plant	16,569
Transportation	64,072
	135,248
Unallocated depreciation	772,893
Total governmental activities depreciation expense	\$ 908,141
Business type activities:	
Food service operations	\$ 30,175

**Note 6. Pension and Retirement Benefits**

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

Plan members are required to contribute 5.95% of their annual salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District’s contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$831,368, \$787,612, and \$698,371 respectively, equal to the required contributions for each year.

**Note 7. Other Postemployment Benefits (OPEB)**

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

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

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

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

The following table shows the components of the District’s annual OPEB cost for June 30, 2014, the amount actually contributed to the plan and changes in the District’s net OPEB obligation:

Annual required contribution	\$	90,654
Interest on net OPEB obligation		(1,613)
Adjustment to annual required contribution		7,194
Annual OPEB cost		<u>96,235</u>
Contributions made		<u>(31,584)</u>
Increase in net OPEB obligation		64,651
Net OPEB obligation - beginning of year		<u>35,853</u>
Net OPEB obligation - end of year	\$	<u><u>100,504</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2014.

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

Year Ended June 30,	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 153,455	161.61%	\$ (25,545)
2013	90,523	32.17%	35,853
2014	96,235	32.82%	100,504

*Funded Status and Funding Progress* - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was approximately \$0.866 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.886 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,805,000 and the ratio of the UAAL to the covered payroll was 13.0%. As of June 30, 2014, there were no trust fund assets.

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

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

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

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

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

**Note 8. Risk Management**

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

District contributions to ISEBA for the year ended June 30, 2014, were \$1,236,744.

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

**Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$568,833 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 10. 28E Agreement**

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

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

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

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

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

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

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

**Note 11. Construction Commitment**

As of June 30, 2014, the District has not entered into any construction contracts. However, at June 30, 2014, the District has architectural fees of \$183,710 as construction in progress for future construction of a bus barn. This project is expected to begin in fiscal 2015. Once completed, the costs of the projects will be added to the District's capital asset listing.

**Note 12. Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2014 is comprised of the following programs:

Program	Amount
Gifted and talented	\$ 193,153
Returning dropouts and dropout prevention	166,215
Beginning teacher mentoring and induction	4,496
Four-year old preschool state aid	61,262
Successful progression for early readers	23,380
Professional development for model core curriculum	24,720
Teacher leadership grants	10,221
Total	<u>\$ 483,447</u>

**Note 13. Lease Agreements**

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

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

**Note 14. Reconciliation of Governmental Fund Balances to Net Position**

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

	Net investment in capital assets	Management Levy	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	121,350	20,807	277,557
Capital assets, net of accumulated depreciation	25,013,602	-	-	-
Revenue bond capitalized indebtedness	(7,560,000)	-	-	-
Capital loan note capitalized indebtedness	(175,000)	-	-	-
Termination benefits	-	(40,000)	-	(10,000)
Accrued interest payable	-	-	(20,807)	(8,141)
Income surtax	-	-	-	127,787
Internal service fund balance	-	-	-	142
Compensated absences	-	-	-	(17,535)
Net OPEB liability	-	-	-	(98,715)
Net position (Exhibit A)	\$ 17,278,602	81,350	-	271,095

**Note 15. Prospective Accounting Change**

During the year ended June 30, 2014, the District received compensation for loss of capital assets of \$87,991 due to tornado damage that occurred during fiscal year 2012. All compensation for loss of capital assets has been received from EMC insurance and the matter is concluded.

**Note 16. Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68 Accounting and Financial Reporting for Pensions - an Amendment to GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

**REQUIRED SUPPLEMENTARY INFORMATION**

CRESTON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2014

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 6,913,711	284,453	7,198,164	8,634,405	8,634,405	(1,436,241)
Intermediate sources	-	-	-	1,000	1,000	(1,000)
State sources	10,655,545	7,704	10,663,249	8,919,932	8,919,932	1,743,317
Federal sources	2,490,634	574,465	3,065,099	4,688,000	4,688,000	(1,622,901)
Total revenues	<u>20,059,890</u>	<u>866,622</u>	<u>20,926,512</u>	<u>22,243,337</u>	<u>22,243,337</u>	<u>(1,316,825)</u>
Expenditures/Expenses:						
Instruction	11,262,389	-	11,262,389	12,885,979	12,885,979	1,623,590
Support services	4,851,980	101,896	4,953,876	5,425,000	5,425,000	471,124
Non-instructional programs	-	797,194	797,194	1,224,995	1,224,995	427,801
Other expenditures	4,269,693	-	4,269,693	9,344,525	9,344,525	5,074,832
Total expenditures/expenses	<u>20,384,062</u>	<u>899,090</u>	<u>21,283,152</u>	<u>28,880,499</u>	<u>28,880,499</u>	<u>7,597,347</u>
Deficiency of revenues under expenditures/expenses	(324,172)	(32,468)	(356,640)	(6,637,162)	(6,637,162)	6,280,522
Other financing sources, net	<u>93,382</u>	-	<u>93,382</u>	-	-	<u>93,382</u>
Deficiency of revenues and other financing sources under expenditures/expenses	(230,790)	(32,468)	(263,258)	(6,637,162)	(6,637,162)	6,373,904
Balances beginning of year	<u>3,124,229</u>	<u>498,031</u>	<u>3,622,260</u>	<u>6,637,162</u>	<u>6,637,162</u>	<u>(3,014,902)</u>
Balances end of year	<u>\$ 2,893,439</u>	<u>465,563</u>	<u>3,359,002</u>	-	-	<u>3,359,002</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2014

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

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

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2009	July 1, 2008	\$ -	\$1,047	\$1,047	0.0%	\$4,126	25.4%
2010	July 1, 2008	\$ -	\$1,047	\$1,047	0.0%	\$5,622	18.6%
2011	July 1, 2010	\$ -	\$1,380	\$1,380	0.0%	\$5,703	24.2%
2012	July 1, 2010	\$ -	\$1,380	\$1,380	0.0%	\$5,834	23.7%
2013	July 1, 2012	\$ -	\$886	\$886	0.0%	\$6,061	14.6%
2014	July 1, 2012	\$ -	\$886	\$886	0.0%	\$6,805	13.0%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**SUPPLEMENTARY INFORMATION**

CRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2014

	Special Revenue		
	Management Levy	Student Activity	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 118,345	124,588	242,933
Receivables:			
Property tax:			
Delinquent	5,320	-	5,320
Succeeding year	357,001	-	357,001
Accounts	-	2,504	2,504
<b>TOTAL ASSETS</b>	<b>\$ 480,666</b>	<b>127,092</b>	<b>607,758</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 2,315	3,468	5,783
Deferred inflows of resources:			
Unavailable revenue:			
Succeeding year property tax	357,001	-	357,001
Fund balances:			
Restricted for:			
Management levy purposes	121,350	-	121,350
Student activities	-	123,624	123,624
Total fund balances	121,350	123,624	244,974
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 480,666</b>	<b>127,092</b>	<b>607,758</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2014

	Special Revenue			Total
	Management Levy	Student Activity	Disaster Recovery (Tornado Damage)	
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 350,819	-	-	350,819
Other	787	480,721	-	481,508
State sources	191	-	-	191
<b>Total revenues</b>	<b>351,797</b>	<b>480,721</b>	<b>-</b>	<b>832,518</b>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	276,113	-	-	276,113
Other	-	495,127	-	495,127
Support services:				
Operation and maintenance of plant	107,032	-	317,532	424,564
Transportation	28,742	-	-	28,742
<b>Total expenditures</b>	<b>411,887</b>	<b>495,127</b>	<b>317,532</b>	<b>1,224,546</b>
Deficiency of revenues under expenditures	(60,090)	(14,406)	(317,532)	(392,028)
Other financing sources:				
Transfer in	-	-	150,462	150,462
Compensation for loss of capital assets	-	-	87,991	87,991
<b>Total other financing sources(uses)</b>	<b>-</b>	<b>-</b>	<b>238,453</b>	<b>238,453</b>
Change in fund balances	(60,090)	(14,406)	(79,079)	(153,575)
Fund balances beginning of year	181,440	138,030	79,079	398,549
Fund balances end of year	\$ 121,350	123,624	-	244,974

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,290,625	407,559	1,698,184
Receivables:			
Property tax:			
Delinquent	-	3,354	3,354
Succeeding year	-	218,121	218,121
Income surtax	-	127,787	127,787
Accounts	151	41	192
Due from other governments	195,894	-	195,894
<b>TOTAL ASSETS</b>	<b>\$ 1,486,670</b>	<b>756,862</b>	<b>2,243,532</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 1,600	-	1,600
Retainage payable	29,370	-	29,370
Total liabilities	30,970	-	30,970
Deferred inflows of resources:			
Unavailable revenue:			
Succeeding year property tax	-	218,121	218,121
Income surtax	-	127,787	127,787
Total deferred inflows of resources	-	345,908	345,908
Fund balances:			
Restricted for:			
School infrastructure	1,455,700	-	1,455,700
Physical plant and equipment	-	410,954	410,954
Total fund balances	1,455,700	410,954	1,866,654
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,486,670</b>	<b>756,862</b>	<b>2,214,162</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	368,080	368,080
Other	16,858	824	17,682
State sources	1,471,656	116	1,471,772
Federal sources	1,856,786	-	1,856,786
Total revenues	<u>3,345,300</u>	<u>369,020</u>	<u>3,714,320</u>
EXPENDITURES:			
Current:			
Support services:			
Operation and maintenance of plant	-	4,728	4,728
Capital outlay	2,444,585	81,305	2,525,890
Total expenditures	<u>2,444,585</u>	<u>86,033</u>	<u>2,530,618</u>
Excess of revenues over over expenditures	900,715	282,987	1,183,702
Other financing uses:			
Transfer out	(400,462)	(182,490)	(582,952)
Change in fund balances	500,253	100,497	600,750
Fund balances beginning of year	955,447	310,457	1,265,904
Fund balances end of year	<u>\$ 1,455,700</u>	<u>410,954</u>	<u>1,866,654</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2014

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
HS general athletics	\$ 31,788	29,276	7,777	(24,174)	29,113
Athletic director	-	-	300	300	-
MS general athletics	-	50	50	-	-
Bowling	178	2,512	3,411	800	79
Boys basketball	994	5,640	6,879	245	-
MS boys basketball	257	1,763	2,342	400	78
Football	2,328	15,458	8,138	(7,400)	2,248
MS football	9	640	1,045	400	4
HS boys soccer	66	1,897	5,059	3,100	4
Baseball	2,344	6,733	12,978	4,046	145
Boys track	69	2,281	4,492	2,142	-
MS boys track	101	209	1,356	1,046	-
Boys cross country	(418)	6,505	8,110	2,436	413
Boys tennis	19	-	1,072	1,500	447
Boys golf	395	360	5,250	4,590	95
Wrestling	1,034	8,596	14,216	4,600	14
MS wrestling	1,044	424	575	-	893
Girls basketball	382	4,251	3,940	(500)	193
MS girls basketball	23	758	780	-	1
Volleyball	1,614	3,402	8,668	4,000	348
MS volleyball	3	788	735	-	56
HS girls soccer	393	4,422	7,955	3,210	70
Softball	163	3,826	9,517	5,768	240
Girls track	101	54	2,667	2,512	-
MS girls track	6	262	262	-	6
Girls tennis	6	81	906	819	-
Girls golf	104	-	1,391	1,300	13
Annual	3,832	13,215	12,216	-	4,831
Cheerleaders	1,279	6,699	8,534	572	16
Class of 2014	3,708	-	724	(2,984)	-
Class of 2015	158	8,528	6,376	(122)	2,188
Class of 2016	6	-	-	-	6
Class of 2017	-	-	172	200	28
FFA	17,900	57,236	52,406	453	23,183
FCCLA	2,352	-	-	-	2,352
FBLA	1,265	25,740	23,583	-	3,422
Interest	268	619	-	(546)	341
Marching panthers	377	30,373	34,041	3,836	545
Panther guard	95	2,074	2,123	-	46
National honor society	-	-	787	800	13
Panther boys basketball	299	7,408	5,870	-	1,837

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 5

Account	Balance End of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Panther girls basketball	1,357	13,672	16,815	2,617	831
Panther boys golf	462	2,818	3,989	800	91
Panther boys cross country	7,882	2,795	5,480	(468)	4,729
Panther boys tennis	(717)	4,510	6,256	2,496	33
Panther boys track	536	96	240	-	392
Panther football	383	52,616	52,823	28	204
Panther girls track	2,443	875	612	-	2,706
Panther girls tennis	269	-	113	123	279
Panther singers	3,769	8,144	10,494	-	1,419
Panther softball	2,496	7,789	8,050	275	2,510
Panther volleyball	4,359	4,049	4,603	-	3,805
Panther weight club	250	-	-	-	250
Panther wrestlers	2,358	5,821	6,889	-	1,290
Panther speech club	248	432	818	200	62
Student activity	-	32,917	10,703	(22,061)	153
Student government	4,795	3,497	3,328	144	5,108
Unity project	200	-	-	-	200
Panther baseball	1,230	2,882	3,085	137	1,164
MS panther football	152	-	-	-	152
MS student government	6,505	3,952	7,342	91	3,206
Cheerleaders	65	467	446	-	86
HS weight room	207	-	178	-	29
MS marching panthers	3,447	2,810	4,285	-	1,972
Entrepreneur	876	-	-	-	876
Panther desktop publishing	1,342	4,419	3,372	98	2,487
Special olympics	2,344	-	1,500	-	844
JDC	332	130	67	-	395
Panther boys soccer	207	7,891	7,950	-	148
Panther girls soccer	(87)	4,780	3,720	232	1,205
Thespians	4,136	2,919	2,549	(200)	4,306
IJAG	331	-	-	-	331
Diversity club	124	-	-	-	124
Panther peppers	8,028	13,900	17,506	1,515	5,937
Big sister/little sister	1,510	-	-	-	1,510
Spanish club	1	-	-	-	1
MS singers	1,648	547	674	-	1,521
Clearing account	-	43,913	44,537	624	-
Total	\$ 138,030	480,721	495,127	-	123,624

**CRESTON COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE LAST TEN YEARS**

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 5,195,363	6,389,898	6,349,445	6,043,357	5,873,843	5,690,210	5,151,891	5,205,282	4,650,977	4,675,468
Tuition	844,227	787,780	527,400	725,932	685,794	589,692	779,123	846,712	531,819	417,718
Other	874,121	862,694	931,718	832,614	721,231	904,072	990,841	1,054,229	1,035,187	992,047
State sources	10,655,545	8,899,980	8,782,631	8,286,487	7,244,174	8,038,068	7,990,501	7,452,259	6,916,779	6,564,307
Federal sources	2,490,634	751,445	383,445	1,319,101	1,973,099	962,992	651,278	811,268	1,162,023	801,998
Total	\$ 20,059,890	17,691,797	16,974,639	17,207,491	16,498,141	16,185,034	15,563,634	15,369,750	14,296,785	13,451,538
Expenditures:										
Instruction:										
Regular	\$ 6,480,450	6,228,443	6,265,668	6,101,506	5,999,181	6,100,713	5,342,920	5,483,982	4,926,797	4,492,302
Special	2,446,459	2,425,295	2,251,495	1,798,482	1,855,851	1,890,125	2,059,834	2,130,654	1,719,109	1,689,582
Other	2,335,480	2,191,630	1,699,128	1,667,314	1,541,470	1,446,614	1,400,158	945,375	1,413,132	1,479,975
Support services:										
Student	496,078	460,803	388,698	377,289	355,840	347,350	342,721	326,932	331,017	318,548
Instructional staff	435,295	346,001	539,013	556,433	382,365	290,957	504,741	344,642	292,024	419,125
Administration	1,565,179	1,601,936	1,569,212	1,552,544	1,510,851	1,489,523	1,555,199	1,511,141	1,423,425	1,214,908
Operation and maintenance of plant	1,713,757	1,354,743	1,538,103	1,353,191	1,284,522	1,452,699	1,179,766	1,217,476	1,235,867	1,178,766
Transportation	641,671	575,657	587,162	529,542	558,706	535,600	610,722	520,583	561,262	355,322
Non-instructional programs:										
Food service operations	-	8,595	8,595	-	-	7,183	7,182	-	2,868	-
Capital outlay	2,525,890	3,809,909	429,960	1,175,843	1,107,768	135,130	653,336	621,617	1,376,643	2,746,755
Long-term debt:										
Principal	985,000	2,385,000	8,025,000	760,000	725,000	690,000	660,000	635,000	610,000	460,000
Interest and fiscal charges	189,970	285,998	631,145	615,335	540,742	570,143	601,483	625,658	647,865	673,912
Other expenditures:										
AEA flow-through	568,833	537,951	504,339	566,249	562,973	508,699	493,874	465,028	431,257	421,173
Total	\$ 20,384,062	22,211,961	24,437,518	17,053,728	16,425,269	15,464,736	15,411,936	14,828,088	14,971,266	15,450,368

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2014

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 14	\$ 145,207
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 14	427,329 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 14	1,929
			<u>574,465</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	287,152
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-GC	60,312
TITLE I SCHOOLS IN NEED OF ASSISTANCE	84.010	FY 14	15,504
			<u>362,968</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 14	<u>74,228</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 14	<u>7,931</u>
GREEN HILLS AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 14	<u>75,127</u>
SOUTHWESTERN COMMUNITY COLLEGE:			
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 14	<u>17,014</u>
DEPARTMENT OF HOMELAND SECURITY:			
IOWA HOMELAND SECURITY AND EMERGENCY MANAGEMENT:			
HAZARD MITIGATION GRANT	97.039	FY 14	<u>1,856,786</u>
TOTAL			<u>\$ 2,968,519</u>

\* - includes \$58,141 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

**To the Board of Education of Creston Community School District:**

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Creston Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 19, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Creston Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Creston Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Creston Community School District's internal control.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-14 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Creston Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

### **Purpose of this Report**

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

February 19, 2015  
Newton, Iowa

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**Independent Auditor's Report on Compliance  
for Each Major Program and on Internal Control over Compliance  
Required by OMB Circular A-133**

**To the Board of Education of Creston Community School District:**

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

We have audited Creston Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its federal programs for the year ended June 30, 2014. Creston Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, Creston Community School District complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

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

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 19, 2015  
Newton, Iowa

CRESTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

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

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

***Child Nutrition Cluster:***

- 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
  - CFDA Number 84.010 - Title I Schools in Need of Assistance
  
  - CFDA Number 97.039 - Hazard Mitigation Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
  - (i) Creston Community School District did not qualify as a low-risk auditee.

CRESTON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2014

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

**II-A-14 Segregation of Duties** - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas for the District.

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

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

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

**Conclusion** - Response accepted.

**OTHER MATTERS:**

**I-B-14 Student Activity Fund** - We noted during our audit that interest earned within the Student Activity Fund during the year was not allocated to individual Student Activity Fund accounts.

**Recommendation** - Interest received in the Student Activity Fund should be allocated amongst the individual activity fund accounts that earned the interest during the year. Allocation of interest should be done at least annually.

**Response** - The Activity Fund interest is deposited into the Activity general that benefits all students in the extracurricular programs.

**Conclusion** - Response accepted.

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

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

**Part IV: Other Findings Related to Required Statutory Reporting:**

**IV-A-14 Certified Budget** - District disbursements for the year ended June 30, 2014, did not exceed budgeted amounts.

**IV-B-14 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 gift cards purchased to a local restaurant from the Boys Cross Country account in the Student Activity Fund. Cash or gift cards do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979. It also does not allow the Board of Director's to audit and allow the final purchase.

**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** - The District no longer allows gift card to be purchased.

**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, reimbursements to employees for items purchased with personal credit cards for the full purchase price, including sales tax for items purchased at local retailers. 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** - Sales tax is not being reimbursed to staff or paid to vendors.

**Conclusion** - Response accepted.

**IV-C-14 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-14 Business Transactions** - No business transactions between the District and District officials or employees were noted.

**IV-E-14** **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-14** **Board Minutes** - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted the following:

**District Depositories:** We noted in the September 16, 2013 board minutes the District named Iowa State Savings bank as an official depository of the District without approving a maximum amount to be kept at the bank. The District also has deposits at Banker's Trust for their investments in the Iowa Schools Joint Investment Trust General Obligations Portfolio where Banker's Trust was not named as a depository with a maximum amount.

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

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

**Response** - The Depository resolution is now part of the September reorganizational meeting.

**Conclusion** - Response accepted.

**Publications:** We noted board minutes were not always published in a timely manner in accordance with the Code of Iowa.

**Recommendation** - The District should publish the minutes within two weeks of the Board meeting as required by Chapter 279.35 of the Code of Iowa.

**Response** - Board minutes are now going to be published in a timely manner.

**Conclusion** - Response accepted.

**IV-G-14** **Certified Enrollment** - We noted a variance in the basic enrollment data certified to the Iowa Department of Education. The number of resident students was overstated by three students.

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

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

**Conclusion** - Response accepted.

**IV-H-14** **Supplementary Weighting** - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

**IV-I-14** Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

**IV-J-14** Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

**IV-K-14** Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds. However, we noted during our audit that the District did not code the Phase I or Phase II portions of its teacher salary supplement allocation as an expense to its teacher salary supplement project code, instead coding them as part of regular salaries. Phase I and Phase II monies in the amount of \$133,213, should have been coded to the teacher salary supplement project for the year ended June 30, 2014, bringing the year ending balance to zero. The following shows the adjustment made by the District to the ending restricted balance for the teacher salary supplement program:

	<u>Restricted Balance on District's CAR</u>	<u>Amount of Expense Adjustment</u>	<u>Audited Ending Restricted Balance</u>
Teacher Salary Supplement	\$ 133,213	(133,213)	-

Recommendation - The District should review their procedures to ensure all expenditures including Phase I and Phase II money are coded to teacher salary supplement prior to certification of the District's certified annual report.

Response - The District will follow the procedures in place to ensure teacher salary supplement funds are handled correctly as mandated by the code of Iowa.

Conclusion - Response accepted.

**IV-L-14** Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

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

Response - Outstanding checks are being addressed and taken care of.

Conclusion - Response accepted.

**IV-M-14** 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, 2014, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit:

Beginning balance		955,447
Revenues:		
Sales tax revenues	\$ 1,224,085	
Other local revenues	16,858	
State revenues	247,571	
Federal revenues	1,856,786	3,345,300
		<u>4,300,747</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 2,444,585	
Transfers to other funds:		
Debt service fund	250,000	
Other transfers	150,462	2,845,047
		<u>2,845,047</u>
Ending balance		<u>\$ 1,455,700</u>

For the year ended June 30, 2014, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	<u>\$ 0.69932</u>	<u>\$ 250,000</u>

**IV-N-14** Alliant Branching Out Grant(Trees Forever) - We noted during our audit that the District's FFA received a Trees Forever Grant and recorded the proceeds from the grant in the Student Activity Fund. The following concerns arose during our audit relating to this grant:

- In subsequent conversation with representatives of Trees Forever, we were told that the District had filed the proper reports with them claiming that all funds received by the District had been spent; however the District's general ledger shows an unspent balance of \$397.76. It would appear that expenditures for the grant are not being reported using the amounts from the District's general ledger.

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

**Response** - This is now being handled correctly.

**Conclusion** - Response accepted.

**IV-O-14** **Teacher's Contracts** - We noted during our audit that the District received Teacher Salary Supplement(TSS) moneys pursuant to sections 257.10 of the Code of Iowa. We noted the District distributed carryover TSS funds as an additional TSS payment in the form of a lump sum payment rather than evenly throughout the year. In addition we noted that this TSS payments was not included in the District salary schedule and therefore not included on individual employee contracts. Chapter 284.3A(2)(a) requires school districts to combine payments made to teachers under section 257.10 with regular wages and create one salary system. Furthermore, if a school district uses a salary schedule, one salary schedule shall be used for regular wages and for distribution of payments under section 257.10. Chapter 284.3A(1)(c) of the Code of Iowa requires that the amount determined to be paid to an individual teacher shall be divided evenly by the appropriate number of pay periods and paid in each pay period of the fiscal year.

**Recommendation** - The District should review procedures to ensure that TSS moneys are combined with regular wages to create one salary system or salary schedule and the total amount should be documented on the employee contracts. The payment of the TSS funding should be distributed evenly throughout the year in compliance with Chapter 284.3A of the Code of Iowa.

**Response** - The District will follow the procedures in place to make sure teacher salary supplement funds are handled correctly as mandated by Iowa Code.

**Conclusion** - Response accepted.