

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2013

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Brooklyn-Guernsey-Malcom Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Edward Kline	President	2013
Dee Dee McDonald	Vice President	2013
Rusty Hedlund	Board Member	2013
Arlene Ford	Board Member	2015
Bob Parker	Board Member	2015
Cassier Minnaert	Board Member	2015
Larry Pendarvis	Board Member	2015
<b>School Officials</b>		
Brad Hohensee	Superintendent	2013
Sharon Schott	District Secretary/ Business Manager	2013
Brian Gruhn	Attorney	2013

**BROOKLYN-GUERNSEY-MALCOM 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 Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District, Brooklyn, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of 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 Brooklyn-Guernsey-Malcom Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2014 on our consideration of Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

January 28, 2014  
Newton, Iowa

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

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

### **2013 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,177,447 in fiscal 2012 to \$5,317,167 in fiscal year 2013, while General Fund expenditures increased from \$5,263,504 in fiscal 2012 to \$5,342,610 in fiscal 2013. This resulted in a decrease in the District's fund balance from \$2,273,468 in fiscal 2012 to \$2,248,025 in fiscal 2013, representing a 1.12% decrease.
- The District's solvency ratio decreased from 41.05% for fiscal year 2012 to 38.46% for fiscal year 2013.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how the governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to 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.

Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

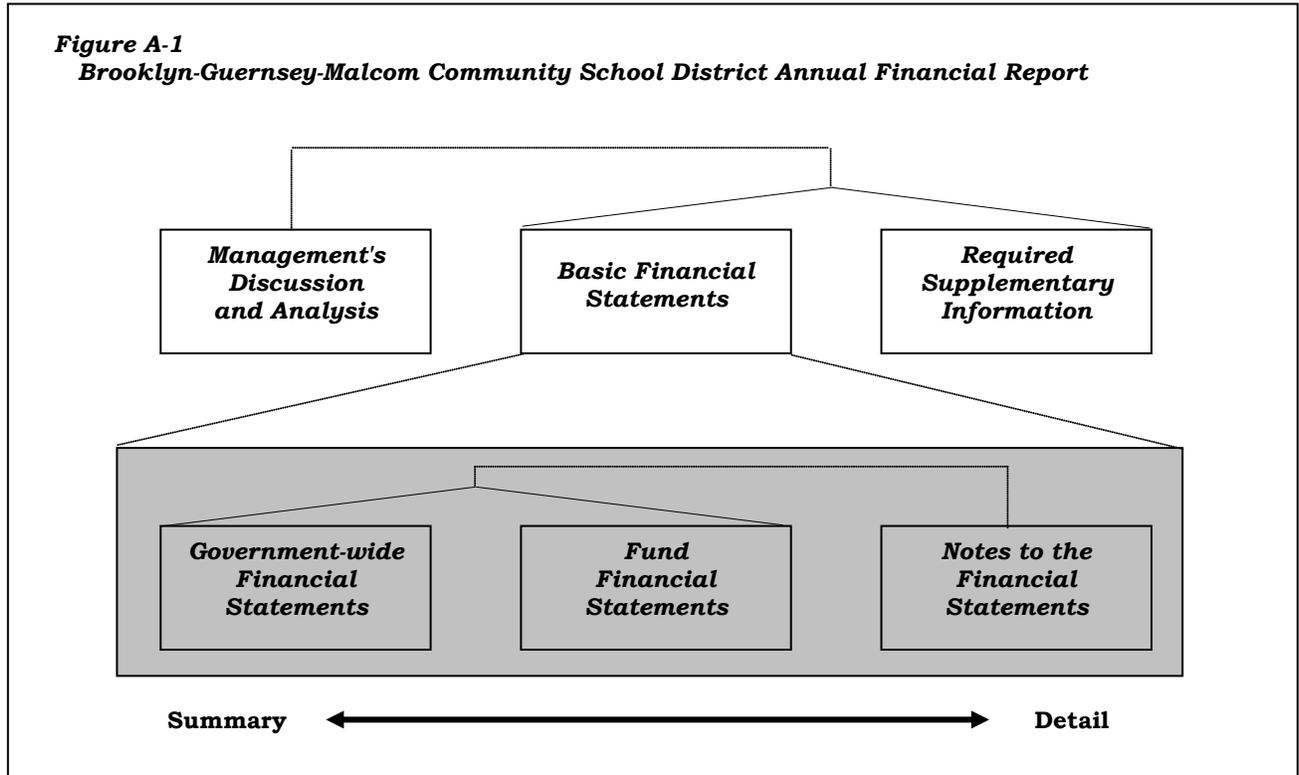


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-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

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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

The two Government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 and wellness building programs are 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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

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

The required financial statements for 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 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 two enterprise funds, the School Nutrition Fund and the Wellness Building Fund.

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 8,267,184	8,157,398	\$ 51,546	75,750	\$ 8,318,730	8,233,148	1.04%
Capital assets	6,548,136	6,025,652	40,794	50,662	6,588,930	6,076,314	8.44%
Total assets	<u>14,815,320</u>	<u>14,183,050</u>	<u>92,340</u>	<u>126,412</u>	<u>14,907,660</u>	<u>14,309,462</u>	<u>4.18%</u>
Long-term obligations	2,564,105	2,843,681	1,296	0	2,565,401	2,843,681	-9.79%
Other liabilities	3,591,749	3,332,981	4,396	6,503	3,596,145	3,339,484	7.69%
Total liabilities	<u>6,155,854</u>	<u>6,176,662</u>	<u>5,692</u>	<u>6,503</u>	<u>6,161,546</u>	<u>6,183,165</u>	<u>-0.35%</u>
Net position:							
Invested in capital assets, net of related debt	4,198,136	3,345,652	40,794	50,662	4,238,930	3,396,314	24.81%
Restricted	2,513,706	2,566,652	0	0	2,513,706	2,566,652	-2.06%
Unrestricted	1,947,624	2,094,084	45,854	69,247	1,993,478	2,163,331	-7.85%
Total net position	<u>\$ 8,659,466</u>	<u>8,006,388</u>	<u>\$ 86,648</u>	<u>119,909</u>	<u>\$ 8,746,114</u>	<u>8,126,297</u>	<u>7.63%</u>

The District's combined net position increased by 7.63% compared to the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased 2.06% or \$52,946 from the prior year.

Unrestricted net position-the part of net position that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- decreased 7.85% or \$169,853 compared to the prior year.

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

Figure A-4  
Changes of Net Position

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	\$ 414,768	443,602	\$ 156,434	171,790	571,202	615,392	-7.18%
Operating grants and contributions and restricted interest	499,112	465,856	152,333	148,632	651,445	614,488	6.01%
Capital grants, contributions and restricted interest	0	0	0	3,500	0	3,500	100.00%
General revenues:							
Property tax	2,734,283	2,530,404	0	0	2,734,283	2,530,404	8.06%
Income surtax	205,019	229,414	0	0	205,019	229,414	-10.63%
Statewide sales, services and use tax	368,390	437,383	0	0	368,390	437,383	-15.77%
Nonspecific program federal funding	0	1,651	0	0	0	1,651	-100.00%
Unrestricted state grants	2,482,809	2,546,687	0	0	2,482,809	2,546,687	-2.51%
Other	107,527	68,820	2,617	3,467	110,144	72,287	52.37%
Total revenues	<u>6,811,908</u>	<u>6,723,817</u>	<u>311,384</u>	<u>327,389</u>	<u>7,123,292</u>	<u>7,051,206</u>	1.02%
Program expenses:							
Governmental activities:							
Instructional	3,860,315	3,888,828	0	0	3,860,315	3,888,828	-0.73%
Support services	1,868,005	1,931,075	8,257	9,562	1,876,262	1,940,637	-3.32%
Non-instructional programs	0	0	336,388	334,161	336,388	334,161	0.67%
Other expenses	430,510	457,767	0	0	430,510	457,767	-5.95%
Total expenses	<u>6,158,830</u>	<u>6,277,670</u>	<u>344,645</u>	<u>343,723</u>	<u>6,503,475</u>	<u>6,621,393</u>	-1.78%
Change in net position	653,078	446,147	(33,261)	(16,334)	619,817	429,813	44.21%
Net position beginning of year	<u>8,006,388</u>	<u>7,560,241</u>	<u>119,909</u>	<u>136,243</u>	<u>8,126,297</u>	<u>7,696,484</u>	5.58%
Net position end of year	<u>\$ 8,659,466</u>	<u>8,006,388</u>	<u>\$ 86,648</u>	<u>119,909</u>	<u>8,746,114</u>	<u>8,126,297</u>	7.63%

In fiscal 2013, property tax, income surtax and statewide sales and services tax and unrestricted state grants account for 85.01% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.16% of the revenue from business type activities.

The District's total revenues were approximately \$7.12 million of which approximately \$6.81 million was for governmental activities and approximately \$0.31 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.02% increase in revenues and a 1.78% decrease in expenses. Unrestricted state grants decreased \$63,878 and property tax increased \$203,879.

## Governmental Activities

Revenues for governmental activities were \$6,811,908 and expenditures were \$6,158,830.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses. The net cost of services is the result after subtracting grants and charges for services that the District used to offset the program's total cost.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 3,860,315	3,888,828	-0.73%	3,162,220	3,205,882	-1.36%
Support services	1,868,005	1,931,075	-3.27%	1,863,309	1,923,279	-3.12%
Other expenses	430,510	457,767	-5.95%	219,421	239,051	-8.21%
Totals	<u>\$ 6,158,830</u>	<u>6,277,670</u>	<u>-1.89%</u>	<u>5,244,950</u>	<u>5,368,212</u>	<u>-2.30%</u>

- A portion of the cost financed by users of the District's programs was \$414,768.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$499,112.
- The net cost portion of governmental activities was financed with \$2,734,283 in property tax, \$205,019 in income surtax, \$368,390 in statewide sales and service tax, \$2,482,809 in unrestricted state grants, \$26,257 in unrestricted investment earnings and \$81,270 in other revenues.

## Business Type Activities

The District's business type activities are the School Nutrition Fund and the Wellness Building Fund. Revenues of the District's business type activities totaled \$311,384 in 2013, which is a decrease of 4.89% over the prior year. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income. Expenses increased 0.27% to \$344,645 for business type activities in 2013.

## INDIVIDUAL FUND ANALYSIS

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

As the District completed the year, its governmental funds reported combined fund balances of \$4,470,542, a decrease of \$131,645 from last year's ending fund balances of \$4,602,187.

## Governmental Fund Highlights

- The General Fund has gone from a fund balance in FY 2012 of \$2,273,468 to a fund balance for FY 2013 of \$2,248,025. This was the result of receiving less in state sources than the prior year.
- The Management Levy Fund balance increased from \$576,883 in FY 2012 to \$664,648 in FY 2013. Despite an overall decrease in revenues, the Management Levy Fund Balance increased due to a decrease in instructional expenditures.

- 
- The Capital Projects Accounts total balance decreased from \$1,439,281 at June 30, 2012 to \$1,230,559 at June 30, 2013. The Statewide Sales, Services and Use Tax Fund revenues decreased from \$442,946 for the year ended June 30, 2012 to \$383,185 for the year ended June 30, 2013 and expenditures increased from \$313,040 for the year ended June 30, 2012 to \$583,361 for the year ended June 30, 2013. The Physical Plant and Equipment Levy Fund revenues decreased from \$320,255 at June 30, 2012 to \$387,414 at June 30, 2013 and expenditures decreased from \$993,000 at June 30, 2012 to \$396,060 at June 30, 2013.
  - The Debt Service Fund balance increased from \$234,554 in FY 2012 to \$251,459 in FY 2013. This increase is due to the issuance of general obligation bonds.

### **Proprietary Fund Highlights**

- School Nutrition Fund net position decreased from \$114,147 at June 30, 2012 to \$80,390 at June 30 2013, representing a decrease of 29.57%.
- The Wellness Building Fund ended fiscal 2013 with net position of \$6,258 as compared to net position of \$5,762 for FY 2012.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Brooklyn-Guernsey-Malcom amended its budget one time to reflect additional revenue and expenditures associated with increased food prices and the refinancing of general obligation bonds.

The District's revenues were \$327,352 less than budgeted revenues, a variance of 4.38%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2013, the District had invested \$6,588,930, 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-5) More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$248,149.

The original cost of the District's capital assets was \$10,623,419. Governmental funds account for \$10,473,762, with the remainder of \$149,657 accounted for in the Proprietary School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the improvements other than buildings category. At June 30, 2013 the improvements other than buildings category totaled \$58,049 compared to \$28,561 at June 30, 2012.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 148,988	148,988	\$ 0	0	\$ 148,988	148,988	0.00%
Construction in Process	1,365,713	701,330	0	0	1,365,713	701,330	94.73%
Buildings	4,671,729	4,805,788	0	0	4,671,729	4,805,788	-2.79%
Improvements other than buildings	58,049	28,561	0	0	58,049	28,561	103.25%
Machinery and equipment	303,657	340,985	40,794	50,662	344,451	391,647	-12.05%
Total	<u>\$ 6,548,136</u>	<u>6,025,652</u>	<u>\$ 40,794</u>	<u>50,662</u>	<u>\$ 6,588,930</u>	<u>6,076,314</u>	<u>8.44%</u>

### Long-Term Debt

At June 30, 2013, the District had \$2,565,401 in general obligation and other long-term debt outstanding. This represents a decrease of 9.79% from last year. (See Figure A-6) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$2,350,000 at June 30, 2013.

The District had compensated absences payable of \$148,568 at June 30, 2013, which will be paid primarily out of the General Fund.

The District also has a net OPEB liability of \$66,833 at June 30, 2013.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2013	2012	2012-13
General obligation	\$ 2,350,000	2,680,000	-12.31%
Compensated absences	148,568	97,242	52.78%
Net OPEB Liability	66,833	66,439	0.59%
Totals	<u>\$ 2,565,401</u>	<u>2,843,681</u>	<u>-9.79%</u>

### 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 District has experienced declining enrollment for a few years and expects the trend to continue for the next 5-10 years.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- On July 1, 2010 IPERS implemented an increase for Employers' contributions for the next four years. It increased on July 1, 2011 from 6.95% to 8.07%, and on July 1, 2012 to 8.67% and on July 1, 2013 to 8.93%. This will increase Brooklyn-Guernsey-Malcom Community School District employer expenses for this contribution.

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## **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 Sharon Schott, Business Manager/Board Secretary, Brooklyn-Guernsey-Malcom Community School District, 1090 Jackson Street, Brooklyn, Iowa, 52211.

BASIC FINANCIAL STATEMENTS

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2013

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 5,068,754	30,635	5,099,389
Receivables:			
Property tax:			
Delinquent	26,791	0	26,791
Succeeding year	2,838,590	0	2,838,590
Income surtax	208,310	0	208,310
Accounts	4,992	0	4,992
Due from other governments	119,747	12,039	131,786
Inventories	0	8,872	8,872
Capital assets, net of accumulated depreciation	6,548,136	40,794	6,588,930
<b>Total Assets</b>	<b>14,815,320</b>	<b>92,340</b>	<b>14,907,660</b>
<b>Liabilities</b>			
Accounts payable	217,714	0	217,714
Salaries and benefits payable	531,632	0	531,632
Accrued interest payable	3,417	0	3,417
Deferred revenue:			
Succeeding year property tax	2,838,590	0	2,838,590
Other	396	0	396
Unearned revenue	0	4,396	4,396
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	420,000	0	420,000
Compensated absences	148,568	0	148,568
Portion due after one year:			
General obligation bonds	1,930,000	0	1,930,000
Net OPEB Liability	65,537	1,296	66,833
<b>Total Liabilities</b>	<b>6,155,854</b>	<b>5,692</b>	<b>6,161,546</b>
<b>Net Position</b>			
Invested in capital assets, net of related debt	4,198,136	40,794	4,238,930
Restricted for:			
Categorical funding	284,793	0	284,793
Debt service	248,042	0	248,042
Management levy	664,648	0	664,648
Student activities	85,664	0	85,664
Physical plant and equipment levy	771,240	0	771,240
School infrastructure	459,319	0	459,319
Unrestricted	1,947,624	45,854	1,993,478
<b>Total Net Position</b>	<b>\$ 8,659,466</b>	<b>86,648</b>	<b>8,746,114</b>

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Grants, Charges Contributions for and Restricted Interest		Govern- mental Activities	Business Type Activities	Total
		Services	Interest			
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,287,269	191,181	70,893	(2,025,195)	0	(2,025,195)
Special	680,413	28,732	42,303	(609,378)	0	(609,378)
Other	892,633	192,963	172,023	(527,647)	0	(527,647)
	<u>3,860,315</u>	<u>412,876</u>	<u>285,219</u>	<u>(3,162,220)</u>	<u>0</u>	<u>(3,162,220)</u>
Support services:						
Student	115,561	0	0	(115,561)	0	(115,561)
Instructional staff	143,390	0	2,804	(140,586)	0	(140,586)
Administration	542,698	0	0	(542,698)	0	(542,698)
Operation and maintenance of plant	833,546	0	0	(833,546)	0	(833,546)
Transportation	232,810	1,892	0	(230,918)	0	(230,918)
	<u>1,868,005</u>	<u>1,892</u>	<u>2,804</u>	<u>(1,863,309)</u>	<u>0</u>	<u>(1,863,309)</u>
Long-term debt interest	114,850	0	0	(114,850)	0	(114,850)
Other expenditures:						
AEA flowthrough	211,089	0	211,089	0	0	0
Depreciation(unallocated)*	104,571	0	0	(104,571)	0	(104,571)
	<u>430,510</u>	<u>0</u>	<u>211,089</u>	<u>(219,421)</u>	<u>0</u>	<u>(219,421)</u>
Total governmental activities	6,158,830	414,768	499,112	(5,244,950)	0	(5,244,950)
Business Type activities:						
Wellness Building						
Support services:						
Student	6,988	7,948	0	0	960	960
Administration	464	0	0	0	(464)	(464)
Nutrition services						
Operation and maintenance of plant	805	0	0	0	(805)	(805)
Non-instructional programs:						
Nutrition services	336,388	148,486	152,333	0	(35,569)	(35,569)
Total business type activities	<u>344,645</u>	<u>156,434</u>	<u>152,333</u>	<u>0</u>	<u>(35,878)</u>	<u>(35,878)</u>
Total	<u>\$ 6,503,475</u>	<u>571,202</u>	<u>651,445</u>	<u>(5,244,950)</u>	<u>(35,878)</u>	<u>(5,280,828)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 2,142,156	0	2,142,156
Debt service				355,685	0	355,685
Capital outlay				236,442	0	236,442
Income surtax				205,019	0	205,019
Statewide sales and services tax				368,390	0	368,390
Unrestricted state grants				2,482,809	0	2,482,809
Unrestricted investment earnings				26,257	135	26,392
Other				81,270	2,482	83,752
Total general revenues				<u>5,898,028</u>	<u>2,617</u>	<u>5,900,645</u>
Changes in net position				653,078	(33,261)	619,817
Net position beginning of year				8,006,388	119,909	8,126,297
Net position end of year				<u>\$ 8,659,466</u>	<u>86,648</u>	<u>8,746,114</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	General	Management Levy	Capital Projects	Debt Service	Nonmajor:	
					Student Activity	Total
<b>Assets</b>						
Cash and pooled investments	\$ 2,726,428	662,668	1,342,658	248,149	88,851	5,068,754
Receivables:						
Property tax:						
Delinquent	19,198	1,980	2,303	3,310	0	26,791
Succeeding year	1,979,970	240,000	283,313	335,307	0	2,838,590
Income surtax	104,155	0	104,155	0	0	208,310
Accounts	4,992	0	0	0	0	4,992
Interfund	13,000	0	0	0	0	13,000
Due from other governments	86,681	0	33,066	0	0	119,747
<b>Total Assets</b>	<b>\$ 4,934,424</b>	<b>904,648</b>	<b>1,765,495</b>	<b>586,766</b>	<b>88,851</b>	<b>8,280,184</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ 70,246	0	147,468	0	0	217,714
Interfund payable	0	0	0	0	13,000	13,000
Salaries and benefits payable	531,632	0	0	0	0	531,632
Deferred revenue:						
Succeeding year property tax	1,979,970	240,000	283,313	335,307	0	2,838,590
Income surtax	104,155	0	104,155	0	0	208,310
Other	396	0	0	0	0	396
<b>Total liabilities</b>	<b>2,686,399</b>	<b>240,000</b>	<b>534,936</b>	<b>335,307</b>	<b>13,000</b>	<b>3,809,642</b>
<b>Fund balances:</b>						
<b>Restricted for:</b>						
Categorical funding	284,793	0	0	0	0	284,793
Debt Service	0	0	0	251,459	0	251,459
Management levy purposes	0	664,648	0	0	0	664,648
Student activities	0	0	0	0	85,664	85,664
School infrastructure	0	0	771,240	0	0	771,240
Physical plant and equipment	0	0	459,319	0	0	459,319
Unassigned	1,963,232	0	0	0	(9,813)	1,953,419
<b>Total fund balances</b>	<b>2,248,025</b>	<b>664,648</b>	<b>1,230,559</b>	<b>251,459</b>	<b>75,851</b>	<b>4,470,542</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,934,424</b>	<b>904,648</b>	<b>1,765,495</b>	<b>586,766</b>	<b>88,851</b>	<b>8,280,184</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds(pages 20)</b>	\$	4,470,542
 <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.		6,548,136
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(3,417)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		208,310
Long-term liabilities, including bonds payable, compensated absences, and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.		<u>(2,564,105)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u>8,659,466</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Management Levy	Capital Projects	Debt Service	Nonmajor: Student Activity	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 2,059,544	200,288	722,509	355,685	0	3,338,026
Tuition	198,435	0	0	0	0	198,435
Other	82,616	5,763	47,974	948	192,836	330,137
State sources	2,803,488	0	116	169	0	2,803,773
Federal sources	171,871	0	0	0	0	171,871
Total revenues	5,315,954	206,051	770,599	356,802	192,836	6,842,242
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular	2,261,321	2,750	40,883	0	0	2,304,954
Special	674,171	0	0	0	0	674,171
Other	696,405	0	0	0	194,886	891,291
	3,631,897	2,750	40,883	0	194,886	3,870,416
Support services:						
Student	115,995	0	0	0	0	115,995
Instructional staff	142,357	0	0	0	0	142,357
Administration	488,383	0	0	0	0	488,383
Operation and maintenance of plant	562,351	115,536	1,467	0	0	679,354
Transportation	190,538	0	0	0	0	190,538
	1,499,624	115,536	1,467	0	0	1,616,627
Capital outlay	0	0	812,071	0	0	812,071
Long-term debt:						
Principal	0	0	0	2,680,000	0	2,680,000
Interest and fiscal charges	0	0	0	127,847	0	127,847
	0	0	0	2,807,847	0	2,807,847
Other expenditures:						
AEA flowthrough	211,089	0	0	0	0	211,089
	211,089	0	0	0	0	211,089
Total expenditures	5,342,610	118,286	854,421	2,807,847	194,886	9,318,050
Excess (deficiency) of revenue Over (under) expenditures	(26,656)	87,765	(83,822)	(2,451,045)	(2,050)	(2,475,808)
Other financing sources(uses):						
Transfers in	0	0	0	125,000	0	125,000
Transfers out	0	0	(125,000)	0	0	(125,000)
Proceeds from issuance of bonds	0	0	0	2,350,000	0	2,350,000
Discount on bond issuance	0	0	0	(7,050)	0	(7,050)
Sales of equipment and materials	1,213	0	0	0	0	1,213
Total other financing sources(uses)	1,213	0	(125,000)	2,467,950	0	2,344,163
Net change in fund balances	(25,443)	87,765	(208,822)	16,905	(2,050)	(131,645)
Fund balances beginning of year	2,273,468	576,883	1,439,381	234,554	77,901	4,602,187
Fund balances end of year	\$ 2,248,025	664,648	1,230,559	251,459	75,851	4,470,542

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds(pages 22) \$ (131,645)

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

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

Capital outlays	\$ 764,619	
Depreciation expense	(238,281)	
Loss on disposal	<u>(3,854)</u>	522,484

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. 330,000

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. 12,997

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (30,334)

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:

Compensated absences	\$ (51,326)	
Net OPEB liability	<u>902</u>	<u>(50,424)</u>

**Changes in net position of governmental activities(page 19) \$ 653,078**

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2013

	School Nutrition	Wellness Building	Total
<b>Assets</b>			
Cash and pooled investments	\$ 24,377	6,258	30,635
Due from other governments	12,039	0	12,039
Inventories	8,872	0	8,872
Capital assets, net of accumulated depreciation	40,794	0	40,794
<b>Total Assets</b>	<b>86,082</b>	<b>6,258</b>	<b>92,340</b>
<b>Liabilities</b>			
Current liabilities:			
Unearned revenues	4,396	0	4,396
<b>Total current liabilities</b>	<b>4,396</b>	<b>0</b>	<b>4,396</b>
Long-term liabilities:			
Net OPEB liability	1,296	0	1,296
<b>Total Liabilities</b>	<b>5,692</b>	<b>0</b>	<b>5,692</b>
<b>Net Position</b>			
Invested in capital assets	40,794	0	40,794
Unrestricted	39,596	6,258	45,854
<b>Total Net Position</b>	<b>\$ 80,390</b>	<b>6,258</b>	<b>86,648</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Wellness Building	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 148,486	7,948	156,434
Miscellaneous	2,482	0	2,482
TOTAL OPERATING REVENUES	150,968	7,948	158,916
OPERATING EXPENSES:			
Support services:			
Student:			
Services	0	253	253
Supplies	0	6,735	6,735
Administration:			
Supplies	0	464	464
Operation and maintenance of plant:			
Services	805	0	805
Total support services	805	7,452	8,257
Non-instructional programs:			
Salaries	111,122	0	111,122
Benefits	24,985	0	24,985
Services	760	0	760
Supplies	189,345	0	189,345
Other	308	0	308
Depreciation	9,868	0	9,868
Total non-instructional	336,388	0	336,388
TOTAL OPERATING EXPENSES	337,193	7,452	344,645
OPERATING INCOME (LOSS)	(186,225)	496	(185,729)
NON-OPERATING REVENUES:			
State sources	2,626	0	2,626
Federal sources	149,707	0	149,707
Interest income	135	0	135
TOTAL NON-OPERATING REVENUES	152,468	0	152,468
Changes in net position	(33,757)	496	(33,261)
Net position beginning of year	114,147	5,762	119,909
Net position end of year	\$ 80,390	6,258	86,648

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2013

	School Nutrition	Wellness Building	Total
Cash flows from operating activities:			
Cash received from sale of services	\$ 148,904	7,948	156,852
Cash received from miscellaneous operating activities	2,482	0	2,482
Cash payments to employees for services	(134,811)	0	(134,811)
Cash payments to suppliers for goods or services	(163,687)	(9,977)	(173,664)
Net cash used in operating activities	<u>(147,112)</u>	<u>(2,029)</u>	<u>(149,141)</u>
Cash flows from non-capital financing activities:			
State grants received	2,626	0	2,626
Federal grants received	125,221	0	125,221
Net cash provided by non-capital financing activities	<u>127,847</u>	<u>0</u>	<u>127,847</u>
Cash flows from investing activities:			
Interest on investments	135	0	135
Net decrease in cash and cash equivalents	(19,130)	(2,029)	(21,159)
Cash and cash equivalents at beginning of year	<u>43,507</u>	<u>8,287</u>	<u>51,794</u>
Cash and cash equivalents at end of year	<u>\$ 24,377</u>	<u>6,258</u>	<u>30,635</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating income(loss)	\$ (186,225)	496	(185,729)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	23,713	0	23,713
Depreciation	9,868	0	9,868
Decrease in inventories	3,818	0	3,818
Decrease in accounts payable	0	(2,525)	(2,525)
Increase in other post employment benefits	1,296	0	1,296
Increase in unearned revenue	418	0	418
Net cash used in operating activities	<u>\$ (147,112)</u>	<u>(2,029)</u>	<u>(149,141)</u>

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

During the year ended June 30, 2013, the District received Federal commodities valued at \$23,713.

SEE NOTES TO FINANCIAL STATEMENTS.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**(1) Summary of Significant Accounting Policies**

The Brooklyn-Guernsey-Malcom 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 cities of Brooklyn, Iowa, and portions of Guernsey and Malcom, and the predominate agricultural territory in Poweshiek County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

For financial reporting purposes, Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom 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 Poweshiek County Assessors' Conference Board.

**B. Basis of Presentation**

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. The value of the United States Treasury Securities on deposit with the escrow agent as part of the crossover refunding bond issue has been added to the invested in capital assets, net of related debt.

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

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

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

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

The District reports the following major governmental funds:

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

The Management Fund is utilized to account for the District's termination benefits, workmen's comprehensive claims, and payments for the district's property insurance.

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

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

The District's nonmajor proprietary funds are the School Nutrition Fund, and Wellness Building Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Wellness Building Fund is used to account for health services provided to employees by the District.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise 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 GAAP basis. The financial statements of the District are prepared by making memorandum adjusting entries to the GAAP basis financial records.

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, machinery and equipment, 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	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	50,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	15 years
Furniture and equipment	5-12 years

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

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

**(2) Cash and Pooled Investments**

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

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

**(3) Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 125,000</u>

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

**(4) Due From and Due to Other Funds**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Student Activity	<u>\$ 13,000</u>

The loan from the General Fund to the Special Revenue, Student Activity Fund was to provide cash flow for the Student Activity Fund.

**(5) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 148,988	0	0	148,988
Construction in progress	701,330	664,383	0	1,365,713
Total capital assets not being depreciated	850,318	664,383	0	1,514,701
Capital assets being depreciated/amortized:				
Buildings	7,242,384	0	0	7,242,384
Improvements other than buildings	65,668	30,897	0	96,565
Machinery and equipment	1,596,984	69,339	46,211	1,620,112
Total capital assets being depreciated	8,905,036	100,236	46,211	8,959,061
Less accumulated depreciation/amortization for:				
Buildings	2,436,596	134,059	0	2,570,655
Improvements other than buildings	37,107	1,409	0	38,516
Machinery and equipment	1,255,999	102,813	42,357	1,316,455
Total accumulated depreciation/amortization	3,729,702	238,281	42,357	3,925,626
Total capital assets being depreciated/amortized, net	5,175,334	(138,045)	3,854	5,033,435
Governmental activities capital assets, net	\$ 6,025,652	526,338	3,854	6,548,136
<b>Business type activities:</b>				
Machinery and equipment	\$ 149,657	0	0	149,657
Less accumulated depreciation	98,995	9,868	0	108,863
Business type activities capital assets, net	\$ 50,662	(9,868)	0	40,794

Depreciation expense was charged by the District as follows:

<b>Governmental activities:</b>	
Instruction:	
Regular	\$ 39,632
Other	14,073
Support services:	
Operation and maintenance of plant	3,054
Transportation	46,054
	<u>102,813</u>
Unallocated depreciation	135,468
Total governmental activities depreciation/amortization expense	<u>\$ 238,281</u>
<b>Business type activities:</b>	
Food services	<u>\$ 9,868</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation	\$ 2,680,000	2,350,000	2,680,000	2,350,000	420,000
Compensated absences	97,242	148,568	97,242	148,568	148,568
Net OPEB liability	66,439	0	902	65,537	0
Total	\$ 2,843,681	2,498,568	2,778,144	2,564,105	568,568

Business Type Activities:

Net OPEB liability	\$ 0	1,296	0	1,296	0
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General Obligation Bonds

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

On April 1, 2013 the District issued \$2,350,000 of general obligation refunding bonds, with interest rates ranging from 0.30 to 1.00% for refunding of a portion of the general obligation bonds issued March 1, 2004. The District used proceeds to pay the \$2,680,000 of principal outstanding of the refunded general obligation bonds when they became callable on May 1, 2013. The present value of the savings of refunding is \$135,110.

Year Ending June 30,	Interest Rate	Bond issue April 1, 2013		
		Principal	Interest	Total
2014	0.30-0.35 %	\$ 420,000	14,494	434,494
2015	0.40-0.45	420,000	11,885	431,885
2016	0.50-0.55	425,000	9,983	434,983
2017	0.60-0.65	425,000	7,660	432,660
2018	0.75-0.85	425,000	4,845	429,845
2019	0.90-1.00	235,000	1,690	236,690
Total		\$ 2,350,000	50,557	2,400,557

Termination Benefits

The District offers a voluntary termination benefit plan to its full-time certified employees. Eligible employees must be at least age fifty-five, and less than sixty-five, and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. A cash payment will be made in either one or two payments, at the discretion of the employees, on July 15, September 15, November 15, or January 15 of the following year, based on the formula using unused leave days, the daily substitute teacher pay rate, and years of District service. The District will also continue paying the health insurance coverage for a single policy at the rate of the cost of a single policy in effect at the time of retirement until the retiree reaches age 65. The district paid no termination benefits during the year ended June 30, 2013.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$273,677, \$243,780, and \$213,191, respectively, equal to the required contributions for each year.

**(8) Other Post-employment Benefits (OPEB)**

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 41 active and 3 retired members in the plan. Participants must be age 57 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

The District provides postemployment benefits for eligible participants enrolled in its plans. The benefits are provided in the form of (1) an implicit rate subsidy where retirees receive health insurance coverage by paying a combined retiree/active rate, and (2) an explicit subsidy where eligible retirees receive a one-time cash benefit which may be used to offset premiums and/or health costs, as well as a monthly premium subsidy.

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

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

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

Annual required contribution	\$ 20,523
Interest on net OPEB obligation	2,990
Adjustment to annual required contribution	(2,479)
Annual OPEB cost	<u>21,034</u>
Contributions made	<u>(20,640)</u>
Increase in net OPEB obligation	394
Net OPEB obligation beginning of year	<u>66,439</u>
Net OPEB obligation end of year	<u><u>\$ 66,833</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$20,640 to the medical plan. Plan members eligible for benefits contributed \$12,395, or 58.93% of the premium costs.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 75,124	75.87%	\$ 48,124
2012	75,315	75.68%	66,439
2013	21,034	98.13%	66,833

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$650,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$197,449. The covered payroll (annual payroll of active employees covered by the plan) was \$3,055,607, and the ratio of the UAAL to covered payroll was 6.46%. As of June 30, 2013 there were no trust fund assets.

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

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

As of July 1, 2012 actuarial valuation date, the entry age actuarial cost method of calculation and the level percent of payroll option was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy.

Mortality rates are from the National Center for Health Statistics Life Expectancy Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon tables contained in the GASB Statement 45.

The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(9) Risk Management**

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$211,089 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Categorical Funding**

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

Project	Amount
LEP Weighting	\$ 13,904
Home School Assistance Program	22,385
Dropout and Drop Out Prevention	108,670
Beginning Teacher Mentoring	2,099
Educator Quality, Basic Salary	11,457
Statewide Voluntary Preschool	31,682
Core Curriculum	33,442
Educator Quality, Professional Development	61,154
Total restricted for categorical funding	<u>\$ 284,793</u>

**(12) Construction Commitments**

The District has entered into a construction project in the amount of \$1,569,312. The projects were for HVAC improvements and the band/vocal room remodel within the School District. As of June 30, 2013, costs of \$1,365,713 had been incurred against the contracts. The balance of \$203,599 will be paid as work progresses. The cost of the improvements will be added to the District's capital asset listing upon completion.

**(13) Deficit Net Position**

At June 30, 2013, the Activity Fund had one account with a deficit unassigned balance totaling \$9,813.

Brooklyn-Guernsey-Malcom Community School District

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 3,866,598	159,051	4,025,649	4,104,573	4,104,573	(78,924)
State sources	2,803,773	2,626	2,806,399	2,957,405	2,957,405	(151,006)
Federal sources	171,871	149,707	321,578	419,000	419,000	(97,422)
Total revenues	<u>6,842,242</u>	<u>311,384</u>	<u>7,153,626</u>	<u>7,480,978</u>	<u>7,480,978</u>	<u>(327,352)</u>
Expenditures/Expenses:						
Instruction	3,870,416	0	3,870,416	4,039,000	4,039,000	168,584
Support services	1,616,627	8,257	1,624,884	1,885,000	1,885,000	260,116
Non-instructional programs	0	336,388	336,388	319,150	360,000	23,612
Other expenditures	3,831,007	0	3,831,007	1,590,211	3,955,211	124,204
Total expenditures/expenses	<u>9,318,050</u>	<u>344,645</u>	<u>9,662,695</u>	<u>7,833,361</u>	<u>10,239,211</u>	<u>576,516</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(2,475,808)	(33,261)	(2,509,069)	(352,383)	(2,758,233)	249,164
Other financing sources, net	<u>2,344,163</u>	<u>0</u>	<u>2,344,163</u>	<u>0</u>	<u>0</u>	<u>2,344,163</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(131,645)	(33,261)	(164,906)	(352,383)	(2,758,233)	2,593,327
Balance beginning of year	<u>4,602,187</u>	<u>119,909</u>	<u>4,722,096</u>	<u>5,903,339</u>	<u>5,903,339</u>	<u>(1,181,243)</u>
Balance end of year	<u>\$ 4,470,542</u>	<u>86,648</u>	<u>4,557,190</u>	<u>5,550,956</u>	<u>3,145,106</u>	<u>1,412,084</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$2,405,850.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2013

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAI as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 650,000	\$ 650,000	0.0%	\$ 1,879,865	34.58%
2011	July 1, 2009	-	650,000	650,000	0.0%	1,911,574	34.00%
2012	July 1, 2009	-	650,000	650,000	0.0%	1,940,915	33.49%
2013	July 1, 2012	-	197,449	197,449	0.0%	3,055,607	6.46%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 884,317	458,341	1,342,658
Receivables:			
Property tax:			
Delinquent	0	2,303	2,303
Succeeding year	0	283,313	283,313
Income surtax	0	104,155	104,155
Due from other governments	33,066	0	33,066
<b>Total Assets</b>	<b>\$ 917,383</b>	<b>848,112</b>	<b>1,765,495</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 146,143	1,325	147,468
Deferred revenue:			
Succeeding year property tax	0	283,313	283,313
Income surtax	0	104,155	104,155
<b>Total Liabilities</b>	<b>146,143</b>	<b>388,793</b>	<b>534,936</b>
Fund balances:			
Restricted for:			
School infrastructure	771,240	0	771,240
Physical plant and equipment	0	459,319	459,319
<b>Total fund balances</b>	<b>771,240</b>	<b>459,319</b>	<b>1,230,559</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 917,383</b>	<b>848,112</b>	<b>1,765,495</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 368,390	354,119	722,509
Other	14,795	33,179	47,974
State sources	0	116	116
TOTAL REVENUES	383,185	387,414	770,599
EXPENDITURES:			
Current:			
Instruction:			
Regular	19,021	21,862	40,883
Support services:			
Operation and maintenance of plant	1,467	0	1,467
Capital outlay	437,873	374,198	812,071
TOTAL EXPENDITURES	458,361	396,060	854,421
Deficiency of revenues under expenditures	(75,176)	(8,646)	(83,822)
Other financing uses:			
Transfers out	(125,000)	0	(125,000)
Net change in fund balances	(200,176)	(8,646)	(208,822)
Fund balances beginning of year	971,416	467,965	1,439,381
Fund balances end of year	\$ 771,240	459,319	1,230,559

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Dramatics	\$ 2,844	0	0	2,844
Vocal music	2,729	1,122	2,381	1,470
JH vocal music	100	0	0	100
Athletics	126	81,550	91,489	(9,813)
Athletics resale	10	300	0	310
Volleyball	597	2,258	2,221	634
Band instrument rent	460	55	0	515
Pool activity	20,169	6,718	8,106	18,781
Boys basketball	3,042	1,380	3,489	933
Football	5,543	26,137	23,957	7,723
Wrestling	524	16,608	12,721	4,411
Girls basketball	6	2,240	1,824	422
Girls softball	139	2,277	2,189	227
Girls track	346	2,492	2,539	299
Boys track	234	220	220	234
Student council	6,211	6,004	6,631	5,584
JH student council	1,196	1,529	1,851	874
Elementary student council	6,938	5,934	3,987	8,885
Silver spirit poms	2,074	4,512	3,833	2,753
Elementary student welfare	2,194	1,986	2,595	1,585
Echo	7,784	11,212	6,388	12,608
HS cheerleaders	2,806	7,996	8,878	1,924
JH cheerleaders	10	0	0	10
FCA	1,007	0	0	1,007
Elementary resale	559	0	0	559
Special athletics	7,965	4,989	5,215	7,739
Class of 2016	0	570	0	570
Class of 2013	1,295	30	1,325	0
Class of 2014	770	4,457	3,016	2,211
Class of 2015	223	260	31	452
Total	<u>\$ 77,901</u>	<u>192,836</u>	<u>194,886</u>	<u>75,851</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 3,338,026	3,176,101	3,237,905	3,136,471	3,329,029	3,066,344	2,931,745	2,742,108	2,776,594	2,682,910
Tuition	198,435	217,995	230,428	244,615	259,621	320,477	289,126	296,371	287,051	277,792
Other	330,137	300,223	339,917	236,274	378,494	506,606	424,472	376,436	207,620	207,714
State sources	2,803,773	2,864,247	2,713,550	2,117,917	2,613,488	3,036,124	2,829,923	2,773,812	2,704,103	2,464,710
Federal sources	171,871	144,151	487,642	372,100	179,990	152,640	166,225	182,283	191,741	571,600
<b>Total</b>	<b>\$ 6,842,242</b>	<b>6,702,717</b>	<b>7,009,442</b>	<b>6,107,377</b>	<b>6,760,622</b>	<b>7,082,191</b>	<b>6,641,491</b>	<b>6,371,010</b>	<b>6,167,109</b>	<b>6,204,726</b>
Expenditures:										
Instruction:										
Regular	\$ 2,304,954	2,454,690	2,304,028	2,357,727	2,171,706	2,156,979	2,042,454	1,964,190	2,048,735	2,091,818
Special	674,171	694,742	664,663	660,099	536,793	560,735	660,103	713,857	620,979	549,516
Other	891,291	796,689	814,676	532,056	648,533	610,788	593,690	606,715	287,395	438,253
Support services:										
Student	115,995	105,615	96,815	182,999	116,261	93,514	89,542	89,609	43,073	42,443
Instructional staff	142,357	129,138	122,030	102,001	186,218	146,706	122,087	145,801	115,767	108,106
Administration	488,383	468,740	414,926	426,457	485,082	493,757	494,613	546,602	509,434	511,743
Operation and maintenance of plant	679,354	627,286	661,656	654,806	550,488	559,981	668,427	567,990	420,102	619,082
Transportation	190,538	271,280	199,370	216,493	360,210	198,252	188,412	319,541	163,817	302,023
Capital outlay	812,071	1,018,901	226,598	264,871	566,564	338,505	131,752	406,230	621,754	1,216,670
Long Term Debt:										
Principal	2,680,000	360,000	350,000	335,000	3,855,000	260,000	490,227	488,589	641,902	966,725
Interest	127,847	107,445	117,970	128,120	325,898	338,877	359,162	372,197	409,159	359,404
Other expenditures:										
AEA flow-through	211,089	218,716	239,984	236,155	209,354	207,745	198,257	190,359	186,460	183,434
<b>Total</b>	<b>\$ 9,318,050</b>	<b>7,253,242</b>	<b>6,212,716</b>	<b>6,096,784</b>	<b>10,012,107</b>	<b>5,965,839</b>	<b>6,038,726</b>	<b>6,411,680</b>	<b>6,068,577</b>	<b>7,389,217</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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**Certified Public Accountants**  
(a professional corporation)  
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**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

**To the Board of Education of the Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 28, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Brooklyn-Guernsey-Malcom 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 Brooklyn-Guernsey-Malcom Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Brooklyn-Guernsey-Malcom 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, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-13, I-B-13, and I-C-13 to be material weaknesses.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Brooklyn-Guernsey-Malcom Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts.

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

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

### **Brooklyn-Guernsey-Malcom Community School District's Responses to Findings**

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

### **Purpose of this Report**

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

January 28, 2014  
Newton, Iowa

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

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

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Receipts - collecting, recording, depositing, journalizing, posting, and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing, and recording.
- 4) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution

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.

Response - The District reviews office procedures on an annual basis to see if any changes can be made given the size of our staff. We have started using a pre-numbered receipt system with all cash received for the general fund, like we do with our student activity fund. We have another person review the deposits daily and they initial the cash receipt journal. The deposits are taken down to the bank by the Superintendent or one of the secretaries that did not make the deposit on the computer. We do have the deposits reviewed by another individual and they sign off on the cash receipt listing that they have verified the amount of the deposit. We have a supervisor review all invoices and initial the invoice authorization for payment. We give the Board a listing of all checks that will be handed out before the Board meetings. We will start handing out each fall a listing of the deductions that are being deducted from the employees' pay and they will be signed by the employee regarding their approval of these deductions. We will also start a sheet that will be reviewed by another person, whose initials will be attached to the document, to show that the pay rates are correct and reviewed by another person. Timesheets are signed off by each individual and kept in a monthly file. These procedures will be reviewed to see if any additional changes are needed.

Conclusion - Response acknowledged.

I-B-13 Gate Admissions - It was noted that the district does not use pre-numbered tickets for all events that requires an admission.

- a. Cash or change boxes should be established with a specific amount.
- b. The District should use pre-numbered tickets.

- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. The number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the “accounting” function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District’s vault or other secure location at the District’s office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to the individuals involved.

Response - The District is in the process of establishing a more formal procedure for ticket sales and reconciliation. Additional controls, such as having the ticket sellers sign off on money amounts, will be added to this procedure. The District will encourage athletic personnel to attend a Student Activity workshop in the fall, and hold training sessions for individuals covering proper ticket sale and reconciliation procedures. Procedures will be reviewed annually, and updated as needed.

Conclusion - Response accepted.

I-C-13 Supporting Documentation - We noted instances of checks being written from payment requests and lacking an invoice or statement that could subsequently be used as supporting documentation.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice.

Response – The District has established procedures to ensure bills are properly supported and approved, as well as procedures for when an invoice may be unavailable. These procedures will be reviewed annually, and updated as needed.

Conclusion - Response accepted.

I-D-13 Purchase Orders - We noted that the District currently uses purchase orders in the purchasing process, however purchase orders lacked information about the specific items purchased and their cost. In addition, we noted that the District does not require employees to submit an approved purchase order to use the District's credit card.

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

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

Response - The District will review current procedures for purchase orders, and is evaluating alternatives to make this procedure easier for employees to complete. The District will also add more restrictions to policies covering use of the District credit card.

Conclusion - Response accepted.

BROOKLYN-GUERNSEY-MALCOM COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - District expenditures for the year ended June 30, 2013 did not exceed the certified budget amounts in any of the functional areas.

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

**Incentive Prizes** - We noted during our audit that the District purchased gift cards from the Special Revenue, Student Activity Fund to be given as rewards and incentives. Giving cash and/or cash equivalents to students as incentives or prizes does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979. Additionally, gift cards do not appear to provide the District with adequate support to determine the final purchases and determine if the amounts are allowable with public funds.

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

Response - The District will review this process and evaluate if more appropriate incentives can be given, while meeting public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Conclusion - Response accepted.

**Coach's Clothing** - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds", the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District should refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups. The costs associated with the clothing should be reimbursed from the employee or added to their W-2's as additional compensation.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing for coaches and other District employees in lieu of using public funds.

Response - The District will review our procedures to become compliant with Article III, Section 31 of the Constitution of the State of Iowa. A process/policy will be established and put before the Board for approval to ensure that coaches clothing is being returned to the school at the end of each season. Additionally, coaches will be encouraged to purchase their own clothing outright or have the booster club purchase them.

Conclusion - Response accepted.

II-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. However, we noted payment for a travel meal which lacked a detailed invoice to be used as supporting documentation. Board policy 401.10 requires detailed receipts be turned in for all credit card purchases.

Recommendation - The district has a policy in place for credit card usage, which states that the users need to provide detailed receipts for purchases made. The District should review procedures in place with personnel to ensure the proper detailed documentation will be available with paid meal reimbursements.

Response - The District will make sure that all detailed invoices are attached to travel expenses for meal reimbursements.

Conclusion - Response accepted.

II-D-13 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Arlene Ford, Board Member		
Husband owns Ford Repair	Purchased services	\$85
Son owns Loren Ford Trucking	Purchased services	\$365
Daughter in-law worked as a preschool teacher	Purchased services	\$49,010
Grandson worked as a custodian	Purchased services	\$1,368
Granddaughter worked as a lifeguard and SPED aide	Purchased services	\$827
Brad Hohensee, Superintendent		
Son worked as a custodian and assistant baseball coach	Purchased services	\$2,369
Daughter worked as a custodian	Purchased services	\$793
Wife worked as a substitute teacher	Purchased services	\$19,292
Cassie Minnaert, Board Member		
Brother in-law owns Minnaert Concrete	Purchased services	\$4,369
David Collum, Maintenance Director		
Owns Dave's Maintenance	Purchased services	\$1,635
Brother owns Collum Electric	Purchased services	\$666
Ed Kline, Board President		
Worked as an official	Purchased services	\$320
Son worked as custodian	Purchased services	\$126
Son worked as a custodian	Purchased services	\$21
Daughter worked as a custodian	Purchased services	\$2,987
Rick Radcliffe, Principal		
Step daughter worked as pool manager and lifeguard	Purchased services	\$941
Daughter worked as a softball coach	Purchased services	\$4,190

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the District's employees and board members do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transaction with Maintenance Director David Collum do not appear to represent a conflict of interest.

In accordance with chapter 279.A of the code of Iowa, the above transactions with Board President Ed Kline do not appear to represent a conflict of interest.

- II-E-13 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-13 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education, however the District did not certify its enrollment data by the October 15<sup>th</sup> deadline.
- Recommendation - The district should adopt procedures to ensure enrollment data is certified timely.
- Response - The district has adopted procedures to ensure enrollment data is certified timely in the future.
- Conclusion - Response accepted.
- II-H-13 Supplementary Weighting - We noted variances in the supplementary weighting data certified to the Department of Education. Supplementary weighting was understated by two students at 0.063FTE each, with a total understatement of 0.126.
- Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.
- Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.
- Conclusion - Response accepted.
- II-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-13 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.
- Recommendation - The District should develop procedures to ensure that the Certified Annual Report is filed timely in the future.
- Response - The District has developed procedures to ensure that the Certified Annual Report is filed timely in the future.
- Conclusion - Response accepted.
- II-K-13 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds
- II-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.
- Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report

(CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$ 971,416
Revenues:		
Sales tax revenues	368,389	
Other local revenues	14,795	383,184
		1,354,600
Expenditures/transfers out:		
School infrastructure construction	417,464	
Equipment	38,441	
Other	2,455	
Transfers to other funds:		
Debt service fund	125,000	
Total expenditures and transfers		583,360
Ending balance		\$ 771,240

For the year ended June 30, 2013, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 0.58762	\$ 125,000

II-M-13 Interfund Loans - We noted during our audit that the District has interfund loans that have not been subsequently repaid. As of June 30, 2013, the Special Revenue, Student Activity Fund owes the General Fund \$13,000.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2010, interfund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1<sup>st</sup> of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later.

Recommendation – The District should repay the loan before the deadline. If the District is unable to repay the loan before the deadline, the District should make a request to the SBRC for a longer period to repay the loan.

The District should create a workout plan to bring the Student Activity Fund back to a healthy financial condition. This workout plan may include finding current Student Activity Fund expenditures that would be allowable from other funds. In addition, the District should evaluate the necessity of interfund loans in the future.

Response - The interfund loan was repaid to the General Fund in the amount of \$13,000. The District will evaluate the necessity of interfund loans in the future. Expenses will be monitored more carefully to make sure that such a need does not exist again.

Conclusion - Response accepted.

II-N-13 Financial Condition - We noted during our audit that the Student Activity Fund included one account with a negative balance of \$9,813.

Recommendation - The District should continue to monitor this account and develop alternatives to eliminate this deficit.

Response - The District will monitor accounts to make sure that they do not end in negative balances. The accounts will be looked at each month and those accounts that are close to being in the red will be told to the Athletic Director, sponsors and/or Superintendent so that they can go to that organization and make sure that they are not purchasing more items and that they develop a plan to get them out of the red before the end of the year.

Conclusion - Response accepted.