

**MASON CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2013**

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Introductory Section

Board of Education and School District Officials

As of June 30, 2013

Name	Title	Term Expires
Board of Education		
Timothy Becker	President	September, 2013
Mark Young (Resigned May 20, 2013)	Vice President	September, 2015
Michele Appelgate	Member	September, 2013
Gary Hoffman (Appointed June 20, 2013)	Member	September, 2013
Darshini Jayawardena	Member	September, 2015
Paula Recinos	Member	September, 2015
Scott Warren	Member	September, 2015
Robert Thoms	Member	September, 2013
Officials		
Dr. Anita Micich	Superintendent	Indefinite
Ramona Jeffrey	District Secretary/Treasurer	Indefinite

Financial Section

Independent Auditor's Report

Board of Education
Mason City Community School District
Mason City, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District, Mason City, 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, as 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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 14 and 43 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 the Mason City 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 on pages 45 through 53, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in our 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 auditing standards generally accepted in the United States of America. 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 a report dated January 7, 2014 on our consideration of the Mason City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
January 7, 2014

**MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

2013 FINANCIAL HIGHLIGHTS

General Fund revenue decreased from \$40,520,387 in fiscal year 2012 to \$39,199,008 in fiscal year 2013, while General Fund expenditures increased from \$38,305,168 in fiscal year 2012 to \$40,906,111 in fiscal year 2013. This resulted in a 19% decrease of \$1,707,103 in General Fund balance from \$8,980,726 in fiscal year 2012 to \$7,273,623 in fiscal year 2013.

The decrease in General Fund revenue of \$1,321,379 was attributable to a decrease in property tax and federal grants. The increase in expenditures was due primarily to an increase in special education and support services.

USING THE 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 the Mason City Community School District as a whole and present an overall view of the District's finances.

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

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

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

Supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

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

FIGURE A-1

**MASON CITY COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT**

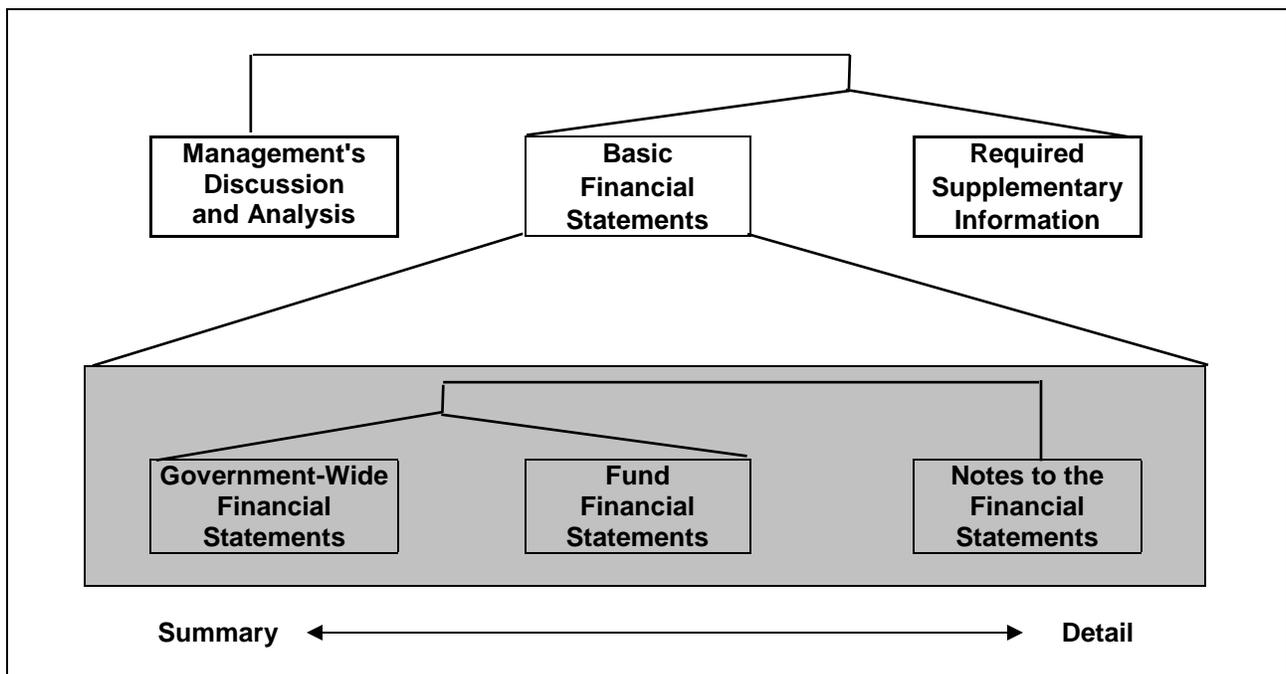


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide 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 revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position equals the difference between the District's assets and liabilities, and is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, you need to consider additional nonfinancial 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 program is included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements.

The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. Internal service funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one internal service fund, the Self Insurance Fund.

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

Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust Funds and one Agency Fund.

Private Purpose Trust Funds - The District accounts for outside donations for scholarships for individual students in these funds.

Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET POSITION

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2013	2012, As Restated (Note 18)	2013	2012	2013	2012, As Restated (Note 18)
Current and other assets	\$ 58,666,272	\$ 65,858,883	\$ 594,823	\$ 735,831	\$ 59,261,095	\$ 66,594,714
Capital assets	65,676,647	57,280,476	1,030,119	1,108,648	66,706,766	58,389,124
TOTAL ASSETS	<u>\$ 124,342,919</u>	<u>\$ 123,139,359</u>	<u>\$ 1,624,942</u>	<u>\$ 1,844,479</u>	<u>\$ 125,967,861</u>	<u>\$ 124,983,838</u>
Long-term liabilities	\$ 38,854,051	\$ 37,274,883	\$ —	\$ —	\$ 38,854,051	\$ 37,274,883
Other liabilities	20,765,323	22,837,442	54,001	33,410	20,819,324	22,870,852
TOTAL LIABILITIES	<u>\$ 59,619,374</u>	<u>\$ 60,112,325</u>	<u>\$ 54,001</u>	<u>\$ 33,410</u>	<u>\$ 59,673,375</u>	<u>\$ 60,145,735</u>
Net Position:						
Net investment in capital assets	\$ 27,426,647	\$ 20,410,476	\$ 1,030,119	\$ 1,108,648	\$ 28,456,766	\$ 21,519,124
Restricted	26,810,421	30,760,097	—	—	26,810,421	30,760,097
Unrestricted	10,486,477	11,856,461	540,822	702,421	11,027,299	12,558,882
TOTAL NET POSITION	<u>\$ 64,723,545</u>	<u>\$ 63,027,034</u>	<u>\$ 1,570,941</u>	<u>\$ 1,811,069</u>	<u>\$ 66,294,486</u>	<u>\$ 64,838,103</u>

The District's combined net position increased 2.2%, or approximately \$1.5 million, over the prior year. The largest portion of the District's net position is investment in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$3.9 million, or 12.8%, from the prior year. The decrease was primarily a result of the spending of bond proceeds towards investments in capital assets.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased approximately \$1.5 million, or 12.2%. This decrease in unrestricted net position was primarily a result of a decrease in revenue due to decreased federal capital grant funding and statewide sales, services and use tax allocations.

Changes in Net Position - 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

**MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total District		Total Change
	2013	2012	2013	2012	2013	2012	2012-2013
REVENUE:							
Program Revenue:							
Charges for service	\$ 3,516,364	\$ 2,536,101	\$ 792,950	\$ 764,535	\$ 4,309,314	\$ 3,300,636	\$ 1,008,678
Operating grants and contributions	5,837,006	6,461,638	1,193,139	1,060,792	7,030,145	7,522,430	(492,285)
Capital grants and contributions	598,779	1,624,675	—	1,011,186	598,779	2,635,861	(2,037,082)
General Revenue:							
Property tax	14,927,417	16,331,675	—	—	14,927,417	16,331,675	(1,404,258)
Statewide sales, services and use tax	5,076,050	5,287,746	—	—	5,076,050	5,287,746	(211,696)
Unrestricted state grants	17,178,426	17,218,697	—	—	17,178,426	17,218,697	(40,271)
Unrestricted investment earnings	131,108	277,157	1,089	2,713	132,197	279,870	(147,673)
Other	324,417	90,131	—	—	324,417	90,131	234,286
TOTAL REVENUE	47,589,567	49,827,820	1,987,178	2,839,226	49,576,745	52,667,046	(3,090,301)
PROGRAM EXPENSES:							
Instruction	31,128,560	28,828,032	—	—	31,128,560	28,828,032	2,300,528
Support services	11,551,458	10,333,076	—	—	11,551,458	10,333,076	1,218,382
Noninstructional programs	—	21,450	2,227,306	2,045,789	2,227,306	2,067,239	160,067
Other expenses	3,213,038	2,759,118	—	—	3,213,038	2,759,118	453,920
TOTAL EXPENSES	45,893,056	41,941,676	2,227,306	2,045,789	48,120,362	43,987,465	4,132,897
CHANGE IN NET POSITION	\$ 1,696,511	\$ 7,886,144	\$ (240,128)	\$ 793,437	\$ 1,456,383	\$ 8,679,581	\$ (7,223,198)

In fiscal year 2013, property tax, statewide sales, services and use tax and unrestricted state grants account for approximately 75% of total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 89% of the total expenses.

The District's total revenue was approximately \$49.6 million, of which approximately \$47.6 million was for governmental activities and \$2 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 5.9% decrease in revenue and a 9.4% increase in expenses. Capital grants and contributions decreased approximately \$2 million due to completion of capital projects in the prior year. The increase in expenses is related to special education expenses.

Governmental Activities

Revenue for governmental activities were \$47,589,567 and expenses were \$45,893,056, which amounted to an increase in net position of \$1,696,511. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, noninstructional programs and other expenses.

FIGURE A-5
MASON CITY COMMUNITY SCHOOL DISTRICT
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	\$ 31,128,560	\$ 28,828,032	8.0%	\$ 22,879,345	\$ 19,941,415	14.7%
Support services	11,551,458	10,333,076	11.8%	11,461,255	10,263,026	11.7%
Noninstructional programs	—	21,450	28.0%	—	21,450	100.0%
Other expenses	<u>3,213,038</u>	<u>2,759,118</u>	<u>16.5%</u>	<u>1,600,307</u>	<u>1,093,371</u>	<u>46.4%</u>
TOTALS	<u>\$ 45,893,056</u>	<u>\$ 41,941,676</u>	<u>9.5%</u>	<u>\$ 35,940,907</u>	<u>\$ 31,319,262</u>	<u>14.8%</u>

- The cost financed by users of the District's programs was \$3,516,364.
- Federal and state governments subsidized certain programs with operating grants and contributions totaling \$5,837,006 and capital grants and contributions totaling \$598,779.
- The net cost of governmental activities was financed with \$20,003,467 in property and other taxes, \$17,178,426 in unrestricted state grants and \$131,108 in interest income.

Business-Type Activities

Revenue of the District's business-type activities was \$1,987,178, representing a 30.0% decrease from the prior year and expenses were \$2,227,306, an increase of 8.9% over the prior year. The District's business-type activities include the School Nutrition Fund. Revenue from these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Individual Fund Analysis

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$33,306,237, a decrease from last year's ending fund balances of \$38,633,211. The main reason for the decrease in combined fund balances in fiscal year 2013 was due to the continued decrease in student enrollment and funding resources along with the decrease in property tax revenue while staffing and expenditure needs increased due to negotiated salaries and benefits, additional student bus routes and an accounting change for student transportation in the General Fund.

The completion of the five phases of the new construction and renovation at the Mason City High School/John Adams Middle School Campus was finalized in 2012-2013, with all students transitioned back to their original locations at the start of school year 2013-2014, had the biggest impact on the Capital Projects Fund.

Governmental Fund Highlights

The fiscal year 2013 General Fund expenditures increased in the instruction and support services functional areas which was due in large part to an accounting change in how the Four Oaks Facility, located in the District, reported their students to the Department of Education. The Mason City Community School District was required to report all revenue and expenditures for all students educated in their District whether they were residing at the Four Oaks Facility, Francis Lauer Youth Services or the Educare Program at Mercy Medical Center - North Iowa. This resulted in an approximate \$1.2 million increase in revenue and expenditures in the Mason City Community School District's special education program.

Revenue for the Mason City Community School District's special education program decreased by \$950,000 for fiscal year 2013 due to the decline in special education students and how the students are weighted for special education funding.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$1,811,069 in 2012 to \$1,570,941 in 2013, a decrease of \$240,128, or approximately 13.3%. Total revenue in 2013 was \$1,987,178 which is a decrease of \$852,048 from \$2,839,226 in 2012. Total expenses for 2013 were \$2,227,306 and in 2012 they were \$2,045,789 for an increase of \$181,517, or approximately 8.9%. Several factors contributed to the decrease in net position, which included accounting for all the new cafeteria equipment which was originally purchased through the Capital Projects Fund and then transferred to the School Nutrition Fund. The total cost of the equipment was \$1,011,186 and the depreciation expense increased by \$42,520.

In fiscal year 2012, the food service department used up the bulk of the carryover in commodities and food inventory stored in the freezer resulting in lower than average expenditures for that year. The expenditures for fiscal year 2013 returned to typical historical levels.

The Mason City and Clear Lake Community School Districts submitted one Invitation for Bid (IFB) to all cafeteria vendors in order to secure a primary vendor for both Districts' food and nonfood expendable supplies in compliance with the new federal regulations. Also, the new federal regulations require more fresh fruits and vegetables, especially the dark greens, reds and oranges; resulting in a substantial increase in food costs. What was the standard costing at \$21 per case increased to \$35 per case. The Healthy Kids Act new state regulations have restricted the a la carte sales for the District resulting in very limited items that can be sold which means lower revenue at the high school level. The District is no longer able to provide food for various special functions due to the federal regulations resulting in a decrease in revenue of approximately \$25,000 per year.

Budgetary Highlights

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 its private purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were \$5,126,943 more than the total budgeted receipts; a variance of 11.5%. The District also sold \$5.5 million of revenue bonds at the end of fiscal year 2012 with the proceeds being received in July, 2012. This bond sale was completed after the budget was certified for fiscal year 2013.

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 the actual expenditures during the year. The District's total actual expenditures were \$60,747,897 compared to the budget amount of \$62,971,427 or a difference of \$2,223,530, which is a 3.5% variance. The majority of the variance in expenditures is due to estimation of expenditures for the new construction and renovation project at the Mason City High School/John Adams Middle School Campus, allowance for substitute costs and the increase in salaries and benefits for the staff.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the District had invested \$66,706,766, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net increase of 14.2% from the prior year. Depreciation expense was \$1,972,579 for Governmental Activities and \$113,768 for Business-Type Activities. Additional information about the District's capital assets is presented in Note 5 to the financial statements.

Governmental Activities account for \$65,676,647 of the District's capital assets with the remainder of \$1,030,119 in the Business-Type Activities.

The largest change in capital asset activity during the year occurred in construction in progress because \$9,720,175 was completed during fiscal year 2013 at the Mason City High School/John Adams Middle School Campus and converted to buildings and improvements.

FIGURE A-6

**MASON CITY COMMUNITY SCHOOL DISTRICT
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Change 2012-2013
	2013	2012	2013	2012	2013	2012	
Land	\$ 315,602	\$ 315,602	\$ —	\$ —	\$ 315,602	\$ 315,602	0.0 %
Construction in progress	8,183,052	17,903,227	—	—	8,183,052	17,903,227	(54.3)%
Buildings and improvements	56,530,798	38,409,355	—	—	56,530,798	38,409,355	47.2 %
Furniture and equipment	647,195	652,292	1,030,119	1,108,648	1,677,314	1,760,940	(4.7)%
TOTALS	<u>\$ 65,676,647</u>	<u>\$ 57,280,476</u>	<u>\$ 1,030,119</u>	<u>\$ 1,108,648</u>	<u>\$ 66,706,766</u>	<u>\$ 58,389,124</u>	<u>14.2 %</u>

Long-Term Debt

As of June 30, 2013, the District had \$38,250,000 in revenue bonds outstanding. The District retired debt in the amount of \$4,130,000 and issued revenue bonds in the amount of \$5,510,000 during the year ended June 30, 2013. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

On July 1, 2013, all debt related to the Roosevelt Campus was paid in full. The only debt outstanding was on the new construction and renovation at the Mason City High School/John Adams Middle School Campus.

FIGURE A-7

**MASON CITY COMMUNITY SCHOOL DISTRICT
OUTSTANDING LONG-TERM OBLIGATIONS**

	Total District June 30, 2013	Total District June 30, 2012	Total Change 2012-2013	Debt Retired June 30, 2013
General obligation bonds	\$ —	\$ 800,000	(100.0)%	\$ 800,000
Revenue bonds	38,250,000	35,070,000	9.1 %	2,330,000
Qualified Zone Academy Bonds	—	1,000,000	(100.0)%	1,000,000
TOTAL BONDS	<u>\$ 38,250,000</u>	<u>\$ 36,870,000</u>	<u>3.7 %</u>	<u>\$ 4,130,000</u>

CONSTRUCTION SUMMARY

In school year 2012-2013, the District was in the completion phase of the \$37 million construction project at the Mason City High School/John Adams Middle School Campus. The 8th grade students were located in the annex, 7th graders were at Madison Elementary and part of the high school students were in the newly renovated John Adams Middle School while the second floor of the Mason City High School was being renovated. The following summer months were used to transition all students back to original locations so when the 2013-2014 school year started, the transition was complete.

The Board's goal was to have local contractors and subcontractors do the construction and renovation at the Mason City High School/John Adams Middle School Campus. Over 100 different people representing the 8 different consulting/architect firms, 6 general contractor firms and 79 different subcontracting firms could be on the job site at any one time. Story Construction provided the construction management services. The new construction included the addition of the FEMA Safe Room which will also serve as a multi-purpose auditorium for the District and the new physical plant to handle all the HVAC needs of the campus.

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 40 years of declining enrollment along with the property tax levy rates being the lowest they have been in 40 years. The District voters passed the Instructional Support Program levy and a new voter-approved PPEL in school year 2013-2014. The District is also looking at major budget reductions and staffing needs for school year 2014-2015.

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 Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Position

As of June 30, 2013

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 42,534,794	\$ 556,142	\$ 43,090,936
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	157,476	—	157,476
Succeeding year	12,672,507	—	12,672,507
Accrued interest.....	6,672	—	6,672
Due from other funds	1,828	21	1,849
Due from other governments.....	2,878,396	3,463	2,881,859
Interfund loan to Agency Fund	200,000	—	200,000
Other.....	63,321	—	63,321
Inventories and prepaid expenses	35,389	35,197	70,586
Capital assets, net of accumulated depreciation	65,676,647	1,030,119	66,706,766
Restricted Assets			
Cash held by agent.....	115,889	—	115,889
Total Assets	\$ 124,342,919	\$ 1,624,942	\$ 125,967,861
Liabilities and Net Position			
Liabilities			
Accounts payable	\$ 1,728,481	\$ 13,512	\$ 1,741,993
Salaries and benefits payable.....	4,279,822	40,489	4,320,311
Accrued interest payable	377,910	—	377,910
Retainage payable	405,279	—	405,279
Deferred Revenue			
Succeeding year property tax.....	12,672,507	—	12,672,507
Other.....	626,737	—	626,737
Provision for self-insurance claims	674,587	—	674,587
Long-Term Liabilities			
Portion Due Within One Year			
Revenue bonds	3,130,000	—	3,130,000
Compensated absences.....	214,968	—	214,968
Early retirement.....	360,428	—	360,428
Portion Due After One Year			
Revenue bonds, net of unamortized discounts and issuance costs	34,641,655	—	34,641,655
Net OPEB liability	507,000	—	507,000
Total Liabilities	59,619,374	54,001	59,673,375
Net Position			
Net investment in capital assets	27,426,647	1,030,119	28,456,766
Restricted for			
Categorical funding	411,725	—	411,725
Debt service	6,253,786	—	6,253,786
Management levy purposes	3,391,243	—	3,391,243
Student activities.....	291,719	—	291,719
School infrastructure	12,586,698	—	12,586,698
Physical plant and equipment	3,609,603	—	3,609,603
Other special revenue purposes	265,647	—	265,647
Unrestricted.....	10,486,477	540,822	11,027,299
Total Net Position	64,723,545	1,570,941	66,294,486
Total Liabilities and Net Position	\$ 124,342,919	\$ 1,624,942	\$ 125,967,861

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2013

Functions/Programs	Expenses
Governmental Activities	
Instruction	
Regular instruction	\$ 16,808,624
Special instruction	9,509,971
Vocational instruction	571,737
Co-curricular instruction	<u>4,238,228</u>
Total Instruction.....	<u>31,128,560</u>
Support Services	
Student services	1,226,723
Instructional staff services	1,228,992
Administration services	3,766,926
Operation and maintenance of plant services.....	3,076,011
Transportation services	1,526,455
Community services.....	8,690
Other support services	<u>717,661</u>
Total Support Services	<u>11,551,458</u>
Other Expenditures	
Facilities acquisition	765,558
Long-term debt interest and fiscal charges.....	826,155
AEA flowthrough	1,612,731
Depreciation - unallocated*	<u>8,594</u>
Total Other Expenditures	<u>3,213,038</u>
Total Governmental Activities	45,893,056
Business-Type Activities	
Noninstructional Programs	
Nutrition services.....	<u>2,227,306</u>
Total	<u>\$ 48,120,362</u>
General Revenue (Expense)	
Property Tax Levied for	
General purposes.....	
Management.....	
PPEL.....	
Statewide sales, services and use tax	
Unrestricted state grants	
Other	
Loss on sale of assets	
Unrestricted investment earnings	
Total General Revenue (Expense)	
Change in Net Position	
Net Position - Beginning of Year, as previously reported	
Prior period restatement - Note 18.....	
Net Position - Beginning of Year, as Restated	
Net Position - End of Year	

* This amount excludes depreciation included in the direct expenses of the various programs.

See accompanying notes to the financial statements.

Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
\$ 833,614	\$ 4,224,275	\$ 598,779	\$ (11,151,956)	\$ —	\$ (11,151,956)
1,798,422	—	—	(7,711,549)	—	(7,711,549)
—	—	—	(571,737)	—	(571,737)
794,125	—	—	(3,444,103)	—	(3,444,103)
<u>3,426,161</u>	<u>4,224,275</u>	<u>598,779</u>	<u>(22,879,345)</u>	<u>—</u>	<u>(22,879,345)</u>
—	—	—	(1,226,723)	—	(1,226,723)
—	—	—	(1,228,992)	—	(1,228,992)
41,205	—	—	(3,725,721)	—	(3,725,721)
—	—	—	(3,076,011)	—	(3,076,011)
48,998	—	—	(1,477,457)	—	(1,477,457)
—	—	—	(8,690)	—	(8,690)
—	—	—	(717,661)	—	(717,661)
<u>90,203</u>	<u>—</u>	<u>—</u>	<u>(11,461,255)</u>	<u>—</u>	<u>(11,461,255)</u>
—	—	—	(765,558)	—	(765,558)
—	—	—	(826,155)	—	(826,155)
—	1,612,731	—	—	—	—
—	—	—	(8,594)	—	(8,594)
<u>—</u>	<u>1,612,731</u>	<u>—</u>	<u>(1,600,307)</u>	<u>—</u>	<u>(1,600,307)</u>
3,516,364	5,837,006	598,779	(35,940,907)	—	(35,940,907)
<u>792,950</u>	<u>1,193,139</u>	<u>—</u>	<u>—</u>	<u>(241,217)</u>	<u>(241,217)</u>
\$ 4,309,314	\$ 7,030,145	\$ 598,779	(35,940,907)	(241,217)	(36,182,124)
			13,042,668	—	13,042,668
			1,499,463	—	1,499,463
			385,286	—	385,286
			5,076,050	—	5,076,050
			17,178,426	—	17,178,426
			391,017	—	391,017
			(66,600)	—	(66,600)
			131,108	1,089	132,197
			<u>37,637,418</u>	<u>1,089</u>	<u>37,638,507</u>
			<u>1,696,511</u>	<u>(240,128)</u>	<u>1,456,383</u>
			63,142,736	1,811,069	64,953,805
			(115,702)	—	(115,702)
			<u>63,027,034</u>	<u>1,811,069</u>	<u>64,838,103</u>
			\$ 64,723,545	\$ 1,570,941	\$ 66,294,486

Balance Sheet - Governmental Funds

As of June 30, 2013

	General	Capital Projects	Debt Service	Nonmajor Government	Total
Assets					
Cash and pooled investments.....	\$ 10,893,459	\$ 16,570,760	\$ 6,037,462	\$ 3,746,332	\$ 37,248,013
Receivables					
Property Tax					
Current year delinquent.....	161,244	4,771	—	16,828	182,843
Succeeding year	11,777,619	394,883	—	500,005	12,672,507
Accrued interest.....	—	6,672	—	—	6,672
Due from other funds.....	262,995	—	—	43,632	306,627
Due from other governments.....	1,419,818	1,458,578	—	—	2,878,396
Interfund loan to Agency Fund.....	—	—	—	200,000	200,000
Other.....	7,353	—	—	55,968	63,321
Inventories and prepaid items.....	35,389	—	—	—	35,389
Restricted Assets					
Cash held by agent.....	—	—	115,889	—	115,889
Total Assets.....	<u>\$ 24,557,877</u>	<u>\$ 18,435,664</u>	<u>\$ 6,153,351</u>	<u>\$ 4,562,765</u>	<u>\$ 53,709,657</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable.....	\$ 1,083,061	\$ 594,821	\$ —	\$ 50,599	\$ 1,728,481
Salaries and benefits payable.....	4,278,948	—	—	874	4,279,822
Retainage payable	—	405,279	—	—	405,279
Due to other funds.....	43,653	243,597	—	17,549	304,799
Early retirement payable	50,653	—	—	309,775	360,428
Deferred Revenue					
Succeeding year property tax.....	11,777,619	394,883	—	500,005	12,672,507
Other	50,320	600,783	—	1,001	652,104
Total Liabilities	<u>17,284,254</u>	<u>2,239,363</u>	<u>—</u>	<u>879,803</u>	<u>20,403,420</u>
Fund Balances					
Inventories and prepaid items.....	35,389	—	—	—	35,389
Restricted for					
Categorical funding.....	411,725	—	—	—	411,725
Debt service.....	—	—	6,153,351	—	6,153,351
Management levy purposes.....	—	—	—	3,391,243	3,391,243
Student activities.....	—	—	—	291,719	291,719
School infrastructure.....	—	12,586,698	—	—	12,586,698
Physical plant and equipment.....	—	3,609,603	—	—	3,609,603
Assigned for					
Adopt-A-School.....	32,874	—	—	—	32,874
Other	12,935	—	—	—	12,935
Unassigned	6,780,700	—	—	—	6,780,700
Total Fund Balances	<u>7,273,623</u>	<u>16,196,301</u>	<u>6,153,351</u>	<u>3,682,962</u>	<u>33,306,237</u>
Total Liabilities and Fund Balances	<u>\$ 24,557,877</u>	<u>\$ 18,435,664</u>	<u>\$ 6,153,351</u>	<u>\$ 4,562,765</u>	<u>\$ 53,709,657</u>

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position

As of June 30, 2013

Total Fund Balances for Governmental Funds (Page 17)....		\$ 33,306,237
 <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.....		65,676,647
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		4,612,194
Long-term liabilities, including bonds payable, unamortized bond discounts and issuance costs, accrued interest payable, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Accrued interest payable	\$ (377,910)	
Bonds payable	(38,250,000)	
Unamortized bond discounts and issuance costs	478,345	
Compensated absences.....	(214,968)	
Net OPEB liability	<u>(507,000)</u>	<u>(38,871,533)</u>
 Net Position of Governmental Activities (Page 15)		 <u>\$ 64,723,545</u>

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2013

	General	Capital Projects	Debt Service	Nonmajor Government	Total
Revenue					
Local Sources					
Local tax.....	\$ 13,042,668	\$ 5,461,104	\$ —	\$ 1,499,463	\$ 20,003,235
Tuition	2,360,503	—	—	—	2,360,503
Other	702,550	84,554	5,345	806,583	1,599,032
State sources	21,726,686	55,662	—	1,066	21,783,414
Federal sources	1,366,601	543,382	—	—	1,909,983
Total Revenue	<u>39,199,008</u>	<u>6,144,702</u>	<u>5,345</u>	<u>2,307,112</u>	<u>47,656,167</u>
Expenditures					
Current					
Instruction					
Regular instruction	15,174,027	—	—	—	15,174,027
Special instruction	9,501,238	—	—	—	9,501,238
Vocational instruction	572,186	—	—	—	572,186
Co-curricular instruction	3,416,487	—	—	739,394	4,155,881
Total Instruction	<u>28,663,938</u>	<u>—</u>	<u>—</u>	<u>739,394</u>	<u>29,403,332</u>
Support Services					
Student services.....	1,179,260	—	—	—	1,179,260
Instructional staff services.....	1,229,879	—	—	—	1,229,879
Administration services	3,711,122	—	—	—	3,711,122
Operation and maintenance					
of plant services.....	2,992,375	22,839	—	—	3,015,214
Transportation services.....	1,508,116	—	—	—	1,508,116
Community services.....	8,690	—	—	—	8,690
Other support services.....	—	—	—	717,661	717,661
Total Support Services	<u>10,629,442</u>	<u>22,839</u>	<u>—</u>	<u>717,661</u>	<u>11,369,942</u>
Other Expenditures					
Facilities acquisition.....	—	11,171,839	—	—	11,171,839
Long-Term Debt					
Principal.....	—	—	4,130,000	—	4,130,000
Interest and fiscal charges	—	87,223	718,074	—	805,297
AEA flowthrough	1,612,731	—	—	—	1,612,731
Total Other Expenditures.....	<u>1,612,731</u>	<u>11,259,062</u>	<u>4,848,074</u>	<u>—</u>	<u>17,719,867</u>
Total Expenditures	<u>40,906,111</u>	<u>11,281,901</u>	<u>4,848,074</u>	<u>1,457,055</u>	<u>58,493,141</u>
Revenue Over (Under) Expenditures	<u>(1,707,103)</u>	<u>(5,137,199)</u>	<u>(4,842,729)</u>	<u>850,057</u>	<u>(10,836,974)</u>
Other Financing Sources (Uses)					
Revenue bonds issued	—	5,510,000	—	—	5,510,000
Operating transfers in.....	—	—	6,137,146	—	6,137,146
Operating transfers out	—	(6,137,146)	—	—	(6,137,146)
Total Other Financing Sources (Uses)	<u>—</u>	<u>(627,146)</u>	<u>6,137,146</u>	<u>—</u>	<u>5,510,000</u>
Net Change in Fund Balances	<u>(1,707,103)</u>	<u>(5,764,345)</u>	<u>1,294,417</u>	<u>850,057</u>	<u>(5,326,974)</u>
Fund Balances - Beginning of Year,					
as previously reported	8,980,726	21,960,646	4,858,934	2,948,607	38,748,913
Prior period restatement - Note 18.....	—	—	—	(115,702)	(115,702)
Fund Balances - Beginning of Year, as Restated.....	8,980,726	21,960,646	4,858,934	2,832,905	38,633,211
Fund Balances - End of Year	<u>\$ 7,273,623</u>	<u>\$ 16,196,301</u>	<u>\$ 6,153,351</u>	<u>\$ 3,682,962</u>	<u>\$ 33,306,237</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities —————

Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds (Page 19) \$ (5,326,974)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the statement of net position and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays.....	\$ 10,435,350	
Depreciation expense.....	(1,972,579)	
Net book value of assets disposed.....	<u>(66,600)</u>	8,396,171

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities.		105,186
---	--	---------

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Current year issues exceeded repayments, as follows:

Issued.....	\$ (5,510,000)	
Repaid	<u>4,130,000</u>	(1,380,000)

Discount on bonds issued during the year did not provide current financial resources to governmental funds but it decreases liabilities in the statement of net position		82,199
--	--	--------

Amortization of discount on bonds payable did not provide current financial resources to governmental funds but it increases liabilities in the statement of net position		(52,765)
---	--	----------

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.....		(50,292)
--	--	----------

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.....	\$ 62,296	
Other post-employment benefits.....	<u>(139,310)</u>	<u>(77,014)</u>

Change in Net Position of Governmental Activities (Page 16) \$ 1,696,511

Statement of Net Position - Proprietary Funds

As of June 30, 2013

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	Internal Service Fund Self-Insurance Fund
Assets		
Current Assets		
Cash and cash equivalents.....	\$ 556,142	\$ 5,286,781
Due from other funds.....	21	—
Due from other governments	3,463	—
Inventories.....	<u>35,197</u>	<u>—</u>
Total Current Assets	<u>594,823</u>	<u>5,286,781</u>
Capital Assets		
Capital assets, net of accumulated depreciation.....	<u>1,030,119</u>	<u>—</u>
Total Assets	<u>\$ 1,624,942</u>	<u>\$ 5,286,781</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 13,512	\$ 674,587
Salaries and benefits payable.....	<u>40,489</u>	<u>—</u>
Total Current Liabilities	<u>54,001</u>	<u>674,587</u>
Net Position		
Investment in capital assets.....	1,030,119	—
Unrestricted.....	<u>540,822</u>	<u>4,612,194</u>
Total Net Position	<u>1,570,941</u>	<u>4,612,194</u>
Total Liabilities and Net Position	<u>\$ 1,624,942</u>	<u>\$ 5,286,781</u>

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Funds

Year Ended June 30, 2013

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	<u>Internal Service Fund</u> Self-Insurance Fund
Operating Revenue		
Local Sources		
Charges for service.....	\$ 786,442	\$ —
Other receipts	6,508	—
Self-insurance contributions	<u>—</u>	<u>4,749,377</u>
Total Operating Revenue	<u>792,950</u>	<u>4,749,377</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits.....	933,559	—
Purchased services and supplies	1,179,684	—
Other.....	295	—
Depreciation.....	113,768	—
Self-insurance claims and fees.....	<u>—</u>	<u>4,660,000</u>
Total Operating Expenses	<u>2,227,306</u>	<u>4,660,000</u>
Income (Loss) From Operations.....	<u>(1,434,356)</u>	<u>89,377</u>
Nonoperating Revenue		
State sources	15,597	—
Federal sources.....	1,177,542	—
Interest on investments	<u>1,089</u>	<u>15,809</u>
Total Nonoperating Revenue.....	<u>1,194,228</u>	<u>15,809</u>
Change in Net Position	(240,128)	105,186
Net Position - Beginning of Year.....	<u>1,811,069</u>	<u>4,507,008</u>
Net Position - End of Year.....	<u>\$ 1,570,941</u>	<u>\$ 4,612,194</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2013

	Business-Type Activities - Enterprise Fund School Nutrition	Internal Service Fund Self-Insurance Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 793,371	\$ —
Cash received from assessments made to other funds	—	4,749,377
Cash payments to employees for services	(921,962)	—
Cash payments for insurance claims	—	(4,599,637)
Cash payments to suppliers for goods or services.....	<u>(1,035,456)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,164,047)</u>	<u>149,740</u>
Cash Flows From Noncapital Financing Activities		
State grants received.....	15,597	—
Federal grants received.....	<u>1,074,111</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,089,708</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets.....	<u>(35,239)</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>1,089</u>	<u>15,809</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(108,489)	165,549
Cash and Cash Equivalents - Beginning of Year	<u>664,631</u>	<u>5,121,232</u>
Cash and Cash Equivalents - End of Year	<u>\$ 556,142</u>	<u>\$ 5,286,781</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations.....	\$ (1,434,356)	\$ 89,377
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used	132,889	—
Depreciation.....	113,768	—
Changes in Assets and Liabilities		
Decrease in receivables	421	—
Decrease in inventories	2,640	—
Increase in accounts payable and provision for self-insurance claims	8,994	60,363
Increase in salaries and benefits payable	<u>11,597</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,164,047)</u>	<u>\$ 149,740</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2013, the District received \$103,431 of federal commodities.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position - Fiduciary Funds

As of June 30, 2013

	Private Purpose Trusts	Agency
Assets		
Cash and pooled investments	\$ 109,766	\$ 233,284
Due from other governments	—	31,630
Due from others.....	<u>650</u>	<u>—</u>
Total Assets	<u>\$ 110,416</u>	<u>\$ 264,914</u>
Liabilities		
Accounts payable	\$ —	\$ 714
Due to others.....	—	62,351
Due to other funds.....	—	1,849
Interfund loan from Management Levy Fund	<u>—</u>	<u>200,000</u>
Total Liabilities	<u>—</u>	<u>264,914</u>
Net Position		
Restricted for		
Scholarships	105,045	—
Other.....	<u>5,371</u>	<u>—</u>
Total Net Position	<u>110,416</u>	<u>—</u>
Total Liabilities and Net Position	<u>\$ 110,416</u>	<u>\$ 264,914</u>

Statement of Changes in Fiduciary Net Position - Fiduciary Funds —————

Year Ended June 30, 2013

	Private Purpose Trusts
Revenue	
Local Sources	
Gifts and contributions	\$ 21,850
Interest income	<u>314</u>
Total Revenue	<u>22,164</u>
Expenditures	
Instruction	
Regular	
Scholarships awarded	<u>27,450</u>
Change in Net Position	(5,286)
Net Position - Beginning of Year, as Restated (Note 18)	<u>115,702</u>
Net Position - End of Year	<u>\$ 110,416</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Mason City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

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

Jointly Governed Organization

The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cerro Gordo County Assessor's Conference Board.

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 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

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

The District's proprietary funds are the School Nutrition Fund used to account for the food service operations of the District and the Internal Service Fund used to account for the self-funded health insurance plan operated by the District.

The District also reports fiduciary funds which focus on net position and changes in net position. The District's fiduciary fund is the Agency Fund used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenue is 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

Property tax, intergovernmental revenue (shared revenue, 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 revenue. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenue.

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.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Assets, Liabilities and Fund Equity

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 include nonnegotiable 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, have a maturity date no longer than three months.

Property Tax Receivable

Property tax in the governmental funds is 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 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 becomes due and collectible in September and March of the fiscal year with a 1-1/2% 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 revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. As of June 30, 2013, government commodities valued at \$8,937 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures/expenses are recognized when the inventory is used.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Capital Assets

Capital assets, which include property, furniture 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. The District did not have any intangible assets as of June 30, 2013. 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.

Land.....	\$ 2,000
Buildings	2,000
Improvements other than buildings	2,000
Intangibles.....	100,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment.....	2,000

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

Buildings	50 Years
Improvements other than buildings	25 Years
Furniture and equipment	5 - 10 Years
Intangibles.....	5 Years

Salaries and Benefits Payable

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

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within 60 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 and grant revenue that has not yet been spent for the intended purpose of the grant.

(1) Summary of Significant Accounting Policies

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 fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect as of 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:

Nonspendable - Amounts that cannot be spent because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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.

Assigned - Amounts which have been constrained by the Board for specific purposes. The constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned - All amounts not included in the preceding classifications.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures exceeded the amounts budgeted in the noninstructional program function; however, the District did not exceed its General Fund unspent authorized budget.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Notes to the Financial Statements

(2) Cash, Cash Equivalents and Pooled Investments

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

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

The District's investments as of June 30, 2013 consisted of certificates of deposit at local banks.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2013.

(3) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Special Revenue Student Activities	\$ 17,549
	Capital Projects Agency	243,597 <u>1,849</u> <u>262,995</u>
Enterprise School Nutrition	General	<u>21</u>
Special Revenue Student Activities Management Levy	General General	43,387 <u>245</u> <u>43,632</u>
Total		<u>\$ 306,648</u>

Notes to the Financial Statements

(4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	<u>\$ 6,137,146</u>

Transfers generally move revenue from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 315,602	\$ —	\$ —	\$ 315,602
Construction in progress	<u>17,903,227</u>	<u>9,840,110</u>	<u>19,560,285</u>	<u>8,183,052</u>
Total Capital Assets Not Being Depreciated.....	<u>18,218,829</u>	<u>9,840,110</u>	<u>19,560,285</u>	<u>8,498,654</u>
Capital Assets Being Depreciated				
Buildings and improvements	58,848,100	19,949,234	467,076	78,330,258
Furniture and equipment	<u>3,291,027</u>	<u>206,291</u>	<u>578,087</u>	<u>2,919,231</u>
Total Capital Assets Being Depreciated.....	<u>62,139,127</u>	<u>20,155,525</u>	<u>1,045,163</u>	<u>81,249,489</u>
Less Accumulated Depreciation for				
Buildings and improvements	20,438,745	1,769,475	408,760	21,799,460
Furniture and equipment	<u>2,638,735</u>	<u>203,104</u>	<u>569,803</u>	<u>2,272,036</u>
Total Accumulated Depreciation.....	<u>23,077,480</u>	<u>1,972,579</u>	<u>978,563</u>	<u>24,071,496</u>
Total Capital Assets Being Depreciated, Net	<u>39,061,647</u>	<u>18,182,946</u>	<u>66,600</u>	<u>57,177,993</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 57,280,476</u>	<u>\$ 28,023,056</u>	<u>\$ 19,626,885</u>	<u>\$ 65,676,647</u>
Business-Type Activities				
Furniture and equipment	\$ 1,687,298	\$ 35,239	\$ —	\$ 1,722,537
Less accumulated depreciation	<u>578,650</u>	<u>113,768</u>	<u>—</u>	<u>692,418</u>
Business-Type Activities				
Capital Assets, Net.....	<u>\$ 1,108,648</u>	<u>\$ (78,529)</u>	<u>\$ —</u>	<u>\$ 1,030,119</u>

Notes to the Financial Statements

(5) Capital Assets

Depreciation expense was charged to the following functions:

Governmental Activities

Instruction					
Regular				\$ 1,675,778	
Special				15,092	
Co-curricular				84,878	
Support Services					
Student.....				48,473	
Administration				58,906	
Operation and maintenance of plant.....				62,414	
Transportation.....				18,444	
				<u>1,963,985</u>	
Unallocated depreciation.....				8,594	
Total Governmental Activities Depreciation Expense				<u>\$ 1,972,579</u>	
Business-Type Activities					
School Nutrition.....					<u>\$ 113,768</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	Reductions	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation					
bonds	\$ 800,000	\$ —	\$ 800,000	\$ —	\$ —
Qualified Zone					
Academy Bonds	1,000,000	—	1,000,000	—	—
Revenue bonds	35,070,000	5,510,000	2,330,000	38,250,000	3,130,000
Unamortized discount					
and issuance costs	(448,911)	(82,199)	(52,765)	(478,345)	—
Compensated absences	277,264	214,968	277,264	214,968	214,968
Early retirement	208,840	360,428	208,840	360,428	360,428
Net OPEB liability	367,690	139,310	—	507,000	—
Total	<u>\$ 37,274,883</u>	<u>\$ 6,142,507</u>	<u>\$ 4,563,339</u>	<u>\$ 38,854,051</u>	<u>\$ 3,705,396</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

Revenue Bonds

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

	QSCB Bonds Issued July 1, 2010			School Infrastructure (Refunding) Issued July 28, 2010		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
Year Ending June 30						
2014	0%	\$ —	\$ —	2.0%	\$ 1,200,000	\$ 12,000
2015	0	—	—	—	—	—
2016	0	—	—	—	—	—
2017	0	—	—	—	—	—
2018	0	—	—	—	—	—
2019-2023	0	—	—	—	—	—
2024-2028	0	14,540,000	—	—	—	—
2029-2030	0	—	—	—	—	—
Total		<u>\$ 14,540,000</u>	<u>\$ —</u>		<u>\$ 1,200,000</u>	<u>\$ 12,000</u>

	School Infrastructure Issued June 29, 2011			QSCB Bonds Issued August 9, 2011		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
Year Ending June 30,						
2014	2.0%	\$ 900,000	\$ 579,760	0%	\$ —	\$ —
2015	3.0	640,000	561,160	0	—	—
2016	3.0	650,000	541,810	0	—	—
2017	3.0	685,000	521,785	0	—	—
2018	3.0	700,000	501,010	0	—	—
2019-2023	3.0 - 4.0	3,995,000	2,132,319	0	—	—
2024-2028	4.2 - 5.0	4,935,000	1,225,234	0	2,000,000	—
2029-2030	5.0	2,495,000	125,875	0	—	—
Total		<u>\$ 15,000,000</u>	<u>\$ 6,188,953</u>		<u>\$ 2,000,000</u>	<u>\$ —</u>

	School Infrastructure Issued July 12, 2012			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
Year Ending June 30,						
2014	2.00%	\$ 1,030,000	\$ 132,760	\$ 3,130,000	\$ 724,520	\$ 3,854,520
2015	2.00	160,000	120,860	800,000	682,020	1,482,020
2016	2.00	170,000	117,560	820,000	659,370	1,479,370
2017	2.00	160,000	114,260	845,000	636,045	1,481,045
2018	2.00	170,000	110,960	870,000	611,970	1,481,970
2019-2023	2.00 - 2.35	750,000	508,313	4,745,000	2,640,632	7,385,632
2024-2028	2.35 - 3.00	750,000	419,213	22,225,000	1,644,447	23,869,447
2029-2030	3.10 - 3.20	2,320,000	74,635	4,815,000	200,510	5,015,510
Total		<u>\$ 5,510,000</u>	<u>\$ 1,598,561</u>	<u>\$ 38,250,000</u>	<u>\$ 7,799,514</u>	<u>\$ 46,049,514</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

The District has pledged future statewide sales, services and use tax revenue to repay revenue bonds issued July 1, 2010, July 28, 2010, June 29, 2011, August 9, 2011 and July 12, 2012. Total principal and interest remaining to be paid on the bonds is \$46,049,514. For the current year, principal of \$2,330,000 and interest of \$699,724 was paid on the bonds and total statewide sales, services and use tax revenue was \$5,076,050.

On July 1, 2010 and August 9, 2011, the District issued \$14,540,000 and \$2,000,000, respectively, of school infrastructure (statewide) sales, services and use tax revenue qualified school construction bonds (QSCB). The bonds were issued for the purpose of financing a portion of the costs associated with the renovation project of the High School and John Adams Middle School. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and both issues mature July 1, 2027. The bonds have a 0% interest rate. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limit of the District.

The school infrastructure (statewide) sales, services and use tax revenue bonds issued June 29, 2011 and July 12, 2012 were issued for the purpose of defraying a portion of the cost of school infrastructure. Both issues are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through July 1, 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds issued June 29, 2011 and July 12, 2012 include the following provisions:

1. All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
2. Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
3. Monies in the revenue account shall next be disbursed to a reserve account. The required amount is the lesser of the sum of 10% of the stated principal amount of the bonds; 125% of the average annual debt service on the bonds; and the maximum annual debt service on the bonds.
4. Any monies remaining in the revenue account after the required transfers to the sinking account and the reserve account may be transferred to the project account and expended for the purposes of issuance.

The District was in compliance with all of the provisions for the year ended June 30, 2013.

Refunded Bonds

The revenue bonds issued July 28, 2010 were used to advance refund revenue bonds issued July 1, 2004, and the District approved a refunding trust agreement with its refunding trustee. The agreement required the District to transfer cash and authorized the issuance of \$5,845,000 School Infrastructure Sales, Services and Use Tax Revenue Refunding Bonds. The trustee agreed to accept the cash and bond proceeds, invest the funds and call and retire debt principal plus interest. At closing, \$5,192,596 of Series 2010A bond proceeds were wire transferred directly to the refunding trust to purchase certain direct obligations of the United States Government which will mature at such times and in such amounts, including investment income therefrom, as will be sufficient to pay all of the principal and interest on the refunded bonds. Remaining bonds are callable at the dates and in the amounts noted below:

Notes to the Financial Statements

(6) Long-Term Liabilities

July 1, 2013

Series 2004, School Infrastructure Local Option Sales and Services Tax Revenue Bonds	\$ 2,325,000
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Interfund Loan

During the year ended June 30, 2013, the Board approved an interfund loan from the management levy fund to the Agency Fund in the amount of \$200,000 including interest at 0.3% due upon receipt of Perkins Grant money.

(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 contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$2,063,599, \$1,849,771 and \$1,571,963, respectively, equal to the required contributions for each year.

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave as of June 30, 2013 was approximately \$9,400,000.

(9) Risk Management

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

(10) Area Education Agency Support

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 \$1,612,731 for the year ended June 30, 2013, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

Notes to the Financial Statements

(11) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to \$75,000 per covered individual. Any amount in excess of \$75,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$4,200,000 for the year ended June 30, 2013.

The District has included \$642,186 in its June 30, 2013 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2013:

Estimated cost incurred but not claimed - June 30, 2012.....	\$ 541,067
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2013.....	4,207,239
Claims paid during the year ended June 30, 2013.....	<u>(4,106,120)</u>
Estimated Costs Incurred But Not Claimed - June 30, 2013.....	<u>\$ 642,186</u>

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten consecutive years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service as of June 30, 2013 was as follows:

Administrators	\$ 900
Teachers/Nurse.....	325
Custodian	225
Secretary.....	200
Para-Professional/Food Service Workers.....	150

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2013 totaled \$360,428. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the General Fund and Special Revenue, Management Levy Fund.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees and retirees and their spouses. There are 465 active and 43 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield: Alliance Select. The dental benefit is administered by Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. Dental benefits are provided on a fully contributory basis, and there is no subsidy or OPEB liability associated with this benefit.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution	\$ 321,000
Interest on net OPEB obligation.....	17,000
Adjustment to annual required contribution.....	<u>(13,690)</u>
Annual OPEB Cost	324,310
Contributions made	<u>(185,000)</u>
Increase in Net OPEB Obligation	139,310
Net OPEB Obligation - Beginning of Year.....	<u>367,690</u>
Net OPEB Obligation - End of Year	<u>\$ 507,000</u>

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

For the fiscal year 2013, the District contributed \$185,000 to the medical plan.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

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	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 252,600	51.9%	\$ 281,000
June 30, 2012	253,690	65.8	367,690
June 30, 2013	324,310	57.0	507,000

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period of July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$2,998,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,998,000. The covered payroll (annual payroll of active employees covered by the plan) was \$24,231,289 and the ratio of the UAAL to the covered payroll was 12.4%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions

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

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

As of the July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2012 and applying the termination factors used in IPERS Actuarial Valuation Report as of June 30, 2012.

Projected claim costs of the medical plan are \$822 per month for retirees less than 65 and \$378 for retirees who have attained age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(14) Operating Lease

The District leases several office copiers and technology equipment under operating leases expiring in 2015 through 2018. The District also leased modular classrooms under operating leases which expired during the year ended June 30, 2013.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

Year Ending June 30,	
2014	\$ 74,119
2015	65,210
2016	41,282
2017	24,643
2018	<u>8,214</u>
Total Minimum Payments Required	<u>\$ 213,468</u>

Rental expense for all operating leases was \$243,844 for the year ended June 30, 2013.

(15) Categorical Funding

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

Program	Amount
Limited English proficiency	\$ 30,665
Statewide voluntary four-year-old preschool program.....	253,647
Education quality, professional development programs	86,898
Market factor	16,008
Beginning administrator mentoring and induction	1,464
Nonpublic textbook services	<u>23,043</u>
	<u>\$ 411,725</u>

Notes to the Financial Statements

(16) Construction Commitment

The District has entered into contracts totaling approximately \$8.7 million for several remodeling projects. As of June 30, 2013, costs of approximately \$8.2 million had been incurred against the contracts. The balance of approximately \$500,000 remaining as of June 30, 2013 will be paid as work on the projects progress.

(17) Subsequent Events

Management has evaluated subsequent events through January 7, 2014, the date which the financial statements were available to be issued.

(18) Prior Period Restatement

During the year ended June 30, 2013, management determined that the scholarship trust accounts were being incorrectly reported as special revenue funds rather than as fiduciary funds. As a result, the Special Revenue Expendable Trust Fund has been removed from the governmental fund statements, decreasing the Nonmajor Governmental Fund balance as of July 1, 2013 by \$115,702. The government-wide, governmental activities net position as of July 1, 2013 was also decreased by \$115,702. These trust accounts are properly reported in the fiduciary fund financial statements for the year ended June 30, 2013.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2013

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total	Original and Final Budget	Over (Under) Budget
Revenue					
Local sources	\$ 23,962,770	\$ 794,039	\$ 24,756,809	\$ 20,716,799	\$ 4,040,010
State sources	21,783,414	15,597	21,799,011	21,799,603	(592)
Federal sources.....	1,909,983	1,177,542	3,087,525	2,000,000	1,087,525
Total Revenue	<u>47,656,167</u>	<u>1,987,178</u>	<u>49,643,345</u>	<u>44,516,402</u>	<u>5,126,943</u>
Expenditures/Expenses					
Instruction.....	29,403,332	—	29,403,332	30,050,000	(646,668)
Support services.....	11,369,942	—	11,369,942	12,005,000	(635,058)
Noninstructional programs.	—	2,227,306	2,227,306	2,150,000	77,306
Other expenditures.....	17,719,867	—	17,719,867	18,766,427	(1,046,560)
Total Expenditures/ Expenses	<u>58,493,141</u>	<u>2,227,306</u>	<u>60,720,447</u>	<u>62,971,427</u>	<u>(2,250,980)</u>
Revenue Over (Under) Expenditures/Expenses	(10,836,974)	(240,128)	(11,077,102)	(18,455,025)	7,377,923
Other Financing Sources (Uses) (Net)....	<u>5,510,000</u>	<u>—</u>	<u>5,510,000</u>	<u>—</u>	<u>5,510,000</u>
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses	(5,326,974)	(240,128)	(5,567,102)	(18,455,025)	12,887,923
Balance - Beginning of Year, as Restated (Note 18)....	38,633,211	1,811,069	40,444,280	27,423,098	13,021,182
Balance - End of Year.....	<u>\$ 33,306,237</u>	<u>\$ 1,570,941</u>	<u>\$ 34,877,178</u>	<u>\$ 8,968,073</u>	<u>\$ 25,909,105</u>

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 and statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

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

During the year ended June 30, 2013, expenditures in the noninstructional program function exceeded the amounts budgeted; however, the District did not exceed its General Fund unspent authorized budget.

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 2,244,000	\$ 2,244,000	0.0%	\$ 19,903,966	11.3%
2010	7-1-08	—	2,244,000	2,244,000	0.0	20,026,581	11.2
2011	7-1-10	—	2,714,000	2,714,000	0.0	23,395,155	11.6
2012	7-1-10	—	2,714,000	2,714,000	0.0	23,436,244	11.6
2013	7-1-12	—	2,998,000	2,998,000	0.0	24,231,289	12.4

See Note 13 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2013

	<u>Special Revenue Funds</u>		
	Management Levy	Student Activities	Total
Assets			
Cash and pooled investments	\$ 3,488,371	\$ 257,961	\$ 3,746,332
Receivables			
Property Tax			
Current year delinquent.....	16,828	—	16,828
Succeeding year	500,005	—	500,005
Due from other funds	245	43,387	43,632
Interfund loan to Agency Fund	200,000	—	200,000
Other.....	—	55,968	55,968
Total Assets	<u>\$ 4,205,449</u>	<u>\$ 357,316</u>	<u>\$ 4,562,765</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 3,425	\$ 47,174	\$ 50,599
Salaries and benefits payable.....	—	874	874
Due to other funds.....	—	17,549	17,549
Early retirement benefits payable	309,775	—	309,775
Deferred Revenue			
Succeeding year property tax.....	500,005	—	500,005
Other.....	1,001	—	1,001
Total Liabilities	<u>814,206</u>	<u>65,597</u>	<u>879,803</u>
Fund Balances			
Restricted for			
Management levy purposes	3,391,243	—	3,391,243
Student activities.....	—	291,719	291,719
Total Fund Balances	<u>3,391,243</u>	<u>291,719</u>	<u>3,682,962</u>
Total Liabilities and Fund Balances	<u>\$ 4,205,449</u>	<u>\$ 357,316</u>	<u>\$ 4,562,765</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2013

	Special Revenue Funds		
	Management Levy	Student Activities	Total
Revenue			
Local Sources			
Local tax	\$ 1,499,463	\$ —	\$ 1,499,463
Other.....	12,113	794,470	806,583
State sources	1,066	—	1,066
Total Revenue	1,512,642	794,470	2,307,112
Expenditures			
Current			
Instruction			
Co-curricular	—	739,394	739,394
Support Services			
Other support	717,661	—	717,661
Total Expenditures	717,661	739,394	1,457,055
Revenue Over Expenditures	794,981	55,076	850,057
Fund Balances - Beginning of Year, as Restated (Note 18).....			
	2,596,262	236,643	2,832,905
Fund Balances - End of Year	\$ 3,391,243	\$ 291,719	\$ 3,682,962

Schedule of Changes in Special Revenue Fund, Student Activity Accounts —

Year Ended June 30, 2013

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Administration.....	\$ 29,586	\$ 10,764	\$ 21,857	\$ 18,493
Special Olympics.....	—	2,323	2,323	—
Talent Development	539	6,235	1,995	4,779
High School Speech and Drama.....	1,799	3,676	4,046	1,429
High School Vocal Music.....	58,397	171,204	162,175	67,426
High School Instrumental Music	18,865	57,219	55,103	20,981
High School Athletics.....	—	248,095	248,095	—
Dance Team.....	—	33	33	—
Cheerleading	—	16,631	16,631	—
General Athletics	—	79,402	16,836	62,566
Concession Stand	6,949	60,789	59,186	8,552
Tournaments	2,814	39,482	38,241	4,055
National Art Honor Society	1,201	90	359	932
Academic Decathlon.....	—	776	776	—
Foreign Language	209	509	507	211
AFS International Club	1,204	—	—	1,204
Model U.N.	—	185	185	—
Literary Club	237	—	—	237
Math Club.....	1,569	—	—	1,569
Science Club	290	—	73	217
Home Economics	243	—	—	243
Adult Living.....	449	—	—	449
Gay/Straight Alliance	159	144	108	195
Industrial Tech - Special Project	563	—	—	563
Prom	11,934	4,706	4,847	11,793
Student Council	1,443	7,734	9,177	—
Mohawk Press.....	61	—	—	61
Yearbook.....	—	43,993	43,993	—
Ambassadors	1,053	—	—	1,053
National Honor Society.....	—	577	577	—
Alternative School	3,076	1,264	274	4,066
Middle School Athletics	183	2,782	2,807	158
Middle School Vocal Music.....	169	—	—	169
John Adams Middle School	21,109	6,043	5,185	21,967
Harding Elementary.....	2,082	5,321	4,972	2,431
Hoover Technology	11,050	2,403	13,453	—
Jefferson Elementary.....	34	245	—	279
Lincoln Intermediate	40,148	13,001	18,756	34,393
Student Parking.....	5,787	1,225	—	7,012
MCHS PTO	—	961	961	—
MCHS JEL	5,740	—	—	5,740
MCHS Sod House	17	—	—	17
MCHS Table Tennis.....	107	—	—	107
MCHS Best Buddies.....	4,587	310	954	3,943
River City Honor Band.....	—	6,253	2,899	3,354
Trap Shooting Club.....	—	95	95	—
MCHC/ISU Prosper Grant	2,990	—	1,915	1,075
	<u>\$ 236,643</u>	<u>\$ 794,470</u>	<u>\$ 739,394</u>	<u>\$ 291,719</u>

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2013

	<u>Capital Projects Accounts</u>		<u>Total Capital Projects Funds</u>
	<u>Statewide Sales, Services and Use Tax</u>	<u>Physical Plant and Equip- ment Levy</u>	
Assets			
Cash and pooled investments	\$ 12,676,967	\$ 3,893,793	\$ 16,570,760
Receivables			
Property Tax			
Current year delinquent	—	4,771	4,771
Succeeding year	—	394,883	394,883
Accrued interest.....	6,672	—	6,672
Due from (to) other accounts	(39,651)	39,651	—
Due from other governments	<u>1,458,578</u>	<u>—</u>	<u>1,458,578</u>
Total Assets	<u>\$ 14,102,566</u>	<u>\$ 4,333,098</u>	<u>\$ 18,435,664</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 510,589	\$ 84,232	\$ 594,821
Retainage payable	405,279	—	405,279
Due to other funds	—	243,597	243,597
Deferred Revenue			
Succeeding year property tax	—	394,883	394,883
Other	<u>600,000</u>	<u>783</u>	<u>600,783</u>
Total Liabilities.....	<u>1,515,868</u>	<u>723,495</u>	<u>2,239,363</u>
Fund Balances			
Restricted for			
School infrastructure.....	12,586,698	—	12,586,698
Physical plant and equipment.....	<u>—</u>	<u>3,609,603</u>	<u>3,609,603</u>
Total Fund Balances.....	<u>12,586,698</u>	<u>3,609,603</u>	<u>16,196,301</u>
Total Liabilities and Fund Balances.....	<u>\$ 14,102,566</u>	<u>\$ 4,333,098</u>	<u>\$ 18,435,664</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Capital Projects Accounts

Year Ended June 30, 2013

	Capital Projects Accounts		Total Capital Projects Funds
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Revenue			
Local Sources			
Local tax	\$ 5,076,050	\$ 385,054	\$ 5,461,104
Other	73,132	11,422	84,554
State sources	55,397	265	55,662
Federal sources	543,382	—	543,382
Total Revenue	5,747,961	396,741	6,144,702
Expenditures			
Support Services			
Operation and maintenance of plant	—	22,839	22,839
Other Expenditures			
Facilities acquisition	10,443,308	728,531	11,171,839
Long-Term Debt			
Interest and fiscal charges	87,223	—	87,223
Total Other Expenditures	10,530,531	728,531	11,259,062
Total Expenditures	10,530,531	751,370	11,281,901
Revenue Under Expenditures	(4,782,570)	(354,629)	(5,137,199)
Other Financing Sources (Uses)			
Revenue bonds issued	5,510,000	—	5,510,000
Operating transfers out	(6,137,146)	—	(6,137,146)
Total Other Financing Sources (Uses)	(627,146)	—	(627,146)
Net Change in Fund Balances	(5,409,716)	(354,629)	(5,764,345)
Fund Balances - Beginning of Year	17,996,414	3,964,232	21,960,646
Fund Balances - End of Year	\$ 12,586,698	\$ 3,609,603	\$ 16,196,301

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund ▬

Year Ended June 30, 2013

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and pooled investments	\$ 194,378	\$ 1,304,156	\$ 1,265,250	\$ 233,284
Due from other governments	43,526	31,630	43,526	31,630
Due from other funds.....	<u>767</u>	<u>—</u>	<u>767</u>	<u>—</u>
Total Assets	<u>\$ 238,671</u>	<u>\$ 1,335,786</u>	<u>\$ 1,309,543</u>	<u>\$ 264,914</u>
Liabilities				
Accounts payable	\$ 30	\$ 714	\$ 30	\$ 714
Due to others.....	38,641	1,133,223	1,109,513	62,351
Due to other funds.....	—	1,849	—	1,849
Interfund loan from Management Levy Fund	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total Liabilities	<u>\$ 238,671</u>	<u>\$ 1,335,786</u>	<u>\$ 1,309,543</u>	<u>\$ 264,914</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

For the Last Ten Years

	2013	2012	2011	2010
Revenue				
Local Sources				
Local tax	\$ 20,003,235	\$ 21,619,421	\$ 20,647,075	\$ 18,792,533
Tuition	2,360,503	1,138,074	1,045,534	969,895
Other	1,599,032	1,597,308	1,754,735	1,557,159
Intermediate sources	—	—	—	—
State sources	21,783,414	21,940,696	21,348,850	18,898,633
Federal sources	<u>1,909,983</u>	<u>3,455,738</u>	<u>2,447,878</u>	<u>4,124,438</u>
Total	<u>\$ 47,656,167</u>	<u>\$ 49,751,237</u>	<u>\$ 47,244,072</u>	<u>\$ 44,342,658</u>
Expenditures				
Instruction				
Regular	\$ 15,174,027	\$ 15,145,617	\$ 14,114,646	\$ 14,567,967
Special	9,501,238	7,886,574	7,641,949	8,173,084
Vocational	572,186	530,104	562,895	719,311
Co-curricular	4,155,881	4,210,018	3,716,156	3,271,661
Support Services				
Student	1,179,260	1,098,559	921,853	1,033,000
Instructional staff	1,229,879	947,148	1,267,666	781,290
Administration	3,711,122	3,401,533	3,528,429	3,515,080
Operation and maintenance of plant	3,015,214	2,894,601	2,939,840	2,943,584
Transportation	1,508,116	1,450,144	1,334,757	1,263,411
Central	—	22	32	133,686
Community	8,690	8,341	11,603	21,734
Other support	717,661	615,431	763,222	452,308
Noninstructional programs	—	21,450	19,535	26,285
Other Expenditures				
Facilities acquisition	11,171,839	17,786,644	8,031,028	996,763
Long-Term Debt				
Principal	4,130,000	3,140,000	2,830,000	5,955,000
Interest and fiscal charges	805,297	437,920	780,846	571,464
AEA flowthrough	<u>1,612,731</u>	<u>1,665,747</u>	<u>1,841,165</u>	<u>1,827,794</u>
Total	<u>\$ 58,493,141</u>	<u>\$ 61,239,853</u>	<u>\$ 50,305,622</u>	<u>\$ 46,253,422</u>

2009	2008	2007	2006	2005	2004
\$ 18,482,676	\$ 18,369,828	\$ 17,944,250	\$ 17,655,326	\$ 16,907,057	\$ 15,233,474
773,756	689,366	688,651	559,101	673,039	587,095
1,735,786	2,169,005	2,397,408	2,144,816	2,102,912	1,324,786
—	3,239	3,070	3,150	21,812	—
21,634,299	20,938,336	20,594,807	19,990,995	19,381,781	18,956,646
<u>1,008,833</u>	<u>1,198,706</u>	<u>1,252,122</u>	<u>1,139,746</u>	<u>1,193,538</u>	<u>1,250,640</u>
<u>\$ 43,635,350</u>	<u>\$ 43,368,480</u>	<u>\$ 42,880,308</u>	<u>\$ 41,493,134</u>	<u>\$ 40,280,139</u>	<u>\$ 37,352,641</u>
\$ 14,329,253	\$ 13,925,271	\$ 14,094,556	\$ 12,851,648	\$ 12,499,642	\$ 12,867,538
8,951,060	8,582,024	7,961,424	7,930,603	8,343,099	8,948,307
800,266	823,893	725,538	623,236	583,875	419,619
2,769,624	2,697,209	2,274,720	2,104,340	1,374,316	1,386,706
965,307	856,993	946,822	914,875	945,606	893,804
953,723	768,295	859,849	826,137	1,906,887	1,037,506
3,685,363	3,736,825	3,496,479	3,214,801	2,854,026	2,243,707
3,244,035	2,900,385	2,924,864	2,743,789	2,531,780	2,474,640
1,277,202	1,180,755	1,070,857	1,118,067	729,202	544,964
155,736	—	3,947	57,608	25,733	216,516
20,581	31,535	27,220	28,998	29,456	16,764
405,477	411,467	432,686	418,981	427,280	362,371
31,434	35,969	47,893	39,145	286,515	35,141
506,723	712,643	4,398,636	15,709,139	3,296,605	1,385,571
2,595,000	2,510,000	2,450,000	2,335,000	575,000	550,000
757,028	842,650	941,675	1,029,600	676,450	304,605
<u>1,556,509</u>	<u>1,473,782</u>	<u>1,441,443</u>	<u>1,384,649</u>	<u>1,343,115</u>	<u>1,357,515</u>
<u>\$ 43,004,321</u>	<u>\$ 41,489,696</u>	<u>\$ 44,098,609</u>	<u>\$ 53,330,616</u>	<u>\$ 38,428,587</u>	<u>\$ 35,045,274</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program.....	10.553	FY 13	\$ 164,787
National School Lunch Program	10.555	FY 13	934,991*
Summer Food Service Program for Children	10.559	FY 13	<u>8,428</u>
Total Child Nutrition Cluster.....			<u>1,108,206</u>
Fresh Fruit and Vegetable Program	10.582	FY 13	<u>69,335</u>
Total U.S. Department of Agriculture			<u>1,177,541</u>
U.S. Department of Justice			
Pass-Through From Iowa Department of Human Services			
Juvenile Justice and Delinquency Prevention -			
Allocation to States.....	16.540	FY 13	<u>23,610</u>
U.S. Department of Energy			
Pass-Through From State of Iowa			
ARRA - State Energy Program.....	81.041	FY 13	<u>27,900</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY 13	<u>827,168</u>
Career and Technical Education - Basic Grants to States	84.048**	FY 13	<u>239,618</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States.....	84.126	FY 13	<u>1,088</u>
Fund for the Improvement of Education	84.215	FY 13	<u>100,000</u>
Improving Teacher Quality State Grants	84.367	FY 13	<u>167,103</u>
Grants for State Assessments and Related Activities..	84.369	FY 13	<u>24,980</u>
Total Pass-Through From Iowa Department of Education			<u>1,359,957</u>
Pass-Through From Area Education Agency 267			
Special Education - Grants to States.....	84.027	FY 13	<u>231,590</u>
Total U.S. Department of Education			<u>1,591,547</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Pass-Through From Iowa Department of Education Medical Assistance Program.....	93.778	FY 13	<u>\$ 57,957</u>
U.S. Department of Homeland Security			
Pass-Through From State of Iowa Hazard Mitigation Grant	97.039	FY 13	<u>415,482</u>
Total			<u>\$ 3,294,037</u>

* Includes \$103,431 of noncash awards.

** Includes \$206,513 of expenditures paid through the Agency Fund; and therefore, these expenditures are not reflected in the fund financial statements or the government-wide statements.

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the Mason City Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

The Mason City Community School District provided \$206,513 of federal awards to various school districts as part of the Career and Technical Education - Basic Grants to States.

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

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mason City Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are 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 the Mason City Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mason City Community School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mason City 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that is described in Part IV of the accompanying schedule of findings and questioned costs.

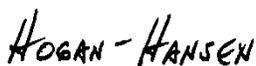
Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not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

Mason City Community School District's Response to Finding

The Mason City Community School District's response to a finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Mason City Community School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 results 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.



HOGAN - HANSEN

Mason City, Iowa
January 7, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Board of Education
Mason City Community School District
Mason City, Iowa

Report on Compliance for Each Major Federal Program

We have audited the Mason City Community School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The Mason City Community School District's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Mason City Community School District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mason City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Mason City Community School District's compliance with those requirements.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
January 7, 2014

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

Child Nutrition Cluster
10.553
10.555
10.559

Name of Federal Program or Cluster

School Breakfast Program
National School Lunch Program
Summer Food Service Program
for Children

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part IV: Other Findings Related to Statutory Reporting

13-IV-A Certified Budget - Expenditures for the year ended June 30, 2013 exceeded the certified budget amounts in the noninstructional program function.

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

District's Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

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

13-IV-C 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.

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

13-IV-E 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 ensure the coverage is adequate for current operations.

13-IV-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

- 13-IV-G Certified Enrollment** - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- 13-IV-H Supplementary Weighting** - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- 13-IV-I Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 13-IV-J Certified Annual Report** - The certified annual report was certified timely to the Iowa Department of Education.
- 13-IV-K Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- 13-IV-L Statewide Sales, Services and Use Tax** - No instances of noncompliance with the allowable uses of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services 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.....		\$ 17,996,414
Revenue		
Statewide sales, services and use tax revenue	\$ 5,076,050	
Other local revenue	73,132	
Sale of long-term debt.....	5,510,000	
Other state revenue.....	55,397	
Federal revenue	<u>543,382</u>	11,257,961
Expenditures/Transfers Out		
School infrastructure construction	\$ 10,443,308	
Other	87,223	
Transfers to Other Funds		
Debt Service Fund.....	<u>6,137,146</u>	<u>16,667,677</u>
Ending Balance		<u>\$ 12,586,698</u>

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