

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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South O'Brien Community School District

Officials

Name	Title	Term Expires
Board of Education		
Sue McCauley	President	2015
Sandy Fritz	Vice President	2015
Lori Burmakow	Board Member	2013
Todd Faust	Board Member	2015
Kevin Nelson	Board Member	2013
Darrell Rehder	Board Member	2013
Tom Wagner	Board Member	2015
School Officials		
Dan Moore	Superintendent	2013
Sharla Rupert	District Secretary	2013
Marty Weber	District Treasurer	2013
DeAnn Lansink	Business Manager	2013
Ahlers & Cooney, P.C.	Attorney	2013

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the South O'Brien Community School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan and the financial statements for the discretely presented component unit on pages 7 through 15 and 40 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South O'Brien Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2014 on our consideration of South O'Brien Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering South O'Brien Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,704,136 in fiscal 2012 compared to \$7,096,985 in fiscal 2013, while General Fund expenditures decreased from \$6,628,857 in fiscal 2012 compared to \$6,867,991 in fiscal 2013. This resulted in an increase in the District's General Fund balance from \$758,783 in fiscal 2012 to a balance of \$987,777 in fiscal 2013, a 30.18% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources. The increase in expenditures was due primarily to an increase in the instruction and support services functional areas.
- The District retired all debt in fiscal 2013 by using PPEL and SILO funds to pay off a building addition one year early.

USING THIS ANNUAL REPORT

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan and the financial statements for the discreetly presented component unit.

The Supplementary Information provides detailed information about the nonmajor governmental funds and Capital Projects Accounts.

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

Figure A-1
South O'Brien Community School District Annual Financial Report

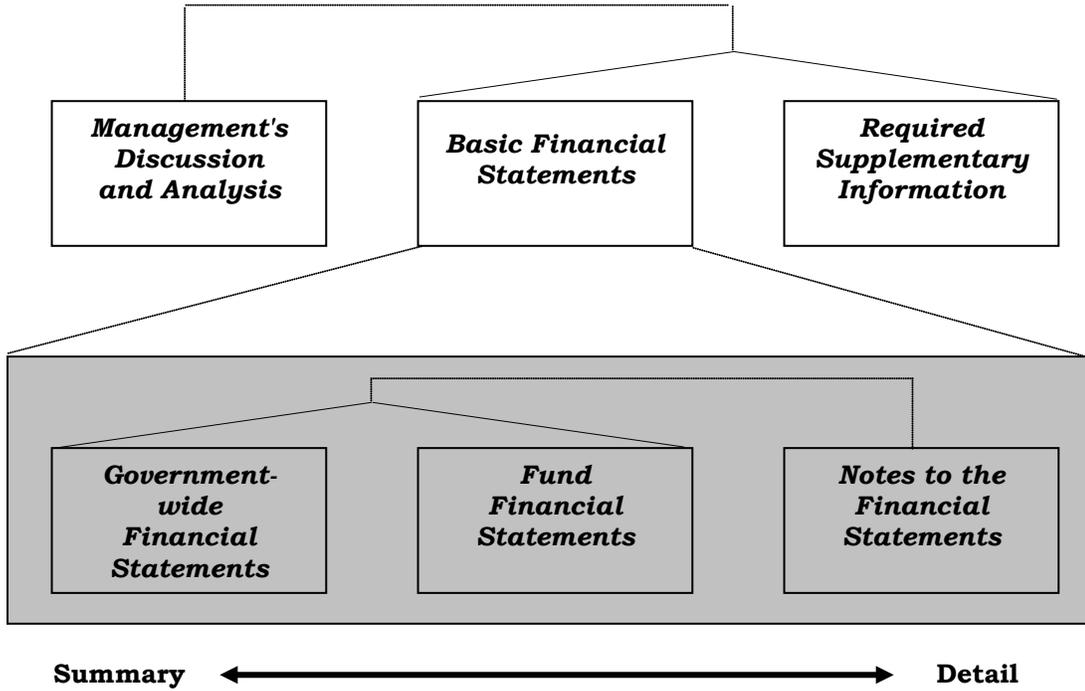


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Position

	Governmental		Business-type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 6,825,035	6,633,061	39,272	59,019	6,864,307	6,692,080	2.57%
Capital assets	5,126,253	4,849,367	38,889	45,252	5,165,142	4,894,619	5.53%
Total assets	11,951,288	11,482,428	78,161	104,271	12,029,449	11,586,699	3.82%
Long-term liabilities	555,928	1,280,602	1,968	-	557,896	1,280,602	-56.43%
Other liabilities	4,661,368	4,414,645	11,794	4,859	4,673,162	4,419,504	5.74%
Total liabilities	5,217,296	5,695,247	13,762	4,859	5,231,058	5,700,106	-8.23%
Net position:							
Invested in capital assets, net of related debt	5,126,253	4,409,367	38,889	45,252	5,165,142	4,454,619	15.95%
Restricted	802,507	1,098,389	-	-	802,507	1,098,389	-26.94%
Unrestricted	805,232	279,425	25,510	54,160	830,742	333,585	149.03%
Total net position	\$ 6,733,992	5,787,181	64,399	99,412	6,798,391	5,886,593	15.49%

The District's combined net position increased by 15.49%, or \$911,798, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$295,882, or 26.94% over the prior year. The decrease was primarily a result the decrease in Management Levy and Capital Projects: Statewide Sales, Services and Use Tax Fund balances.

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 – increased \$497,157, or 149.03%. This increase is due to the increase in fund balance of the General Fund.

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

Figure A-4
Changes in Net Position

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenues							
Program revenues and transfers:							
Charges for services	\$ 424,044	422,271	131,635	125,421	555,679	547,692	1.46%
Operating grants and contributions and restricted interest	608,578	1,077,518	140,659	151,977	749,237	1,229,495	-39.06%
General revenues:							
Property tax	3,713,631	3,389,805	-	-	3,713,631	3,389,805	9.55%
Income surtax	363,049	345,640	-	-	363,049	345,640	5.04%
Statewide sales, services and use tax	586,505	515,855	-	-	586,505	515,855	13.70%
Unrestricted state grants	2,915,634	2,449,978	-	-	2,915,634	2,449,978	19.01%
Unrestricted investment earnings	13,725	12,889	243	285	13,968	13,174	6.03%
Other	7,426	36,994	1,207	-	8,633	36,994	-76.66%
Transfers	(13,769)	-	13,769	-	-	-	0.00%
Total revenues and transfers	8,618,823	8,250,950	287,513	277,683	8,906,336	8,528,633	4.43%
Program expenses:							
Governmental activities:							
Instruction	5,038,016	5,245,073	-	-	5,038,016	5,245,073	-3.95%
Support services	2,232,560	1,960,409	22,739	-	2,255,299	1,960,409	15.04%
Non-instructional programs	-	-	299,787	281,396	299,787	281,396	6.54%
Other expenses	401,436	540,308	-	-	401,436	540,308	-25.70%
Total expenses	7,672,012	7,745,790	322,526	281,396	7,994,538	8,027,186	-0.41%
Change in net position	946,811	505,160	(35,013)	(3,713)	911,798	501,447	81.83%
Net position beginning of year	5,787,181	5,282,021	99,412	103,125	5,886,593	5,385,146	9.31%
Net position end of year	\$ 6,733,992	5,787,181	64,399	99,412	6,798,391	5,886,593	15.49%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 87.93% of the revenue from governmental activities while charges for service and seals and operating grants and contributions account for 94.71% of the revenue from business type activities.

The District's total revenues were \$8,906,336 of which \$8,618,823 was for governmental activities and \$287,513 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.43% increase in revenues and a 0.41% decrease in expenses. The decrease in expenses was primarily due to the decrease in the other expenses functional area.

Governmental Activities

Revenues for governmental activities were \$8,618,823 and expenses were \$7,672,012 for the year ended June 30, 2013.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Service		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 5,038,016	5,245,073	-3.95%	4,309,793	4,040,141	6.67%
Support services	2,232,560	1,960,409	13.88%	2,194,064	1,916,262	14.50%
Other expenses	401,436	540,308	-25.70%	135,533	289,598	-53.20%
Totals	\$ 7,672,012	7,745,790	-0.95%	6,639,390	6,246,001	6.30%

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$424,044.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$608,578.
- The net cost of governmental activities was financed with \$3,713,631 in local tax, \$363,049 in income surtax, \$586,505 in statewide sales, services and use tax, \$2,915,634 in unrestricted state grants, \$13,725 in unrestricted investment earnings, \$7,426 in other general revenues and capital contributions to the nutrition fund shown as transfers of \$13,769.

Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2013 were \$287,513 and expenses were \$322,526. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service and federal and state reimbursements, interest income, and capital contributions from the governmental funds.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,814,084, above last year's ending fund balances of \$1,873,870. The primary reason for the decrease in the combined fund balances is the decrease in the Management Levy and Capital Projects: Statewide Sales, Services and Use Tax Fund balance.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in local and state sources resulted in an increase in revenues. The increase in revenues was greater than the increase General Fund expenditures, resulting in an increase in fund balance from \$758,783 to \$987,777.
- The Capital Projects Fund balance decreased from \$805,256 to \$618,777. This was due to an increase in the transfer to the Debt Service Fund for the District's final payment on the revenue bond and capital loan note indebtedness.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$99,412 at June 30, 2012 to \$64,399 at June 30, 2013, representing a 35.22% decrease.

BUDGETARY HIGHLIGHTS

Over the course of the year, South O'Brien Community School District amended its budget one time to reflect additional expenditures associated with technology purchases and a bus purchase.

The District's revenues were \$235,369 more than budgeted revenues, a variance of 2.71%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$5,165,142, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 5.53% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$252,040.

The original cost of the District's capital assets was \$11,602,727. Governmental funds account for \$11,388,543 with the remainder of \$214,184 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$1,381,990 at June 30, 2013, compared to \$1,092,949 reported at June 30, 2012. This increase resulted from equipment purchases in excess of depreciation expense in the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 68,514	65,933	-	-	68,514	65,933	3.91%
Buildings	3,502,769	3,557,431	-	-	3,502,769	3,557,431	-1.54%
Land improvements	211,869	178,306	-	-	211,869	178,306	18.82%
Machinery and equipment	1,343,101	1,047,697	38,889	45,252	1,381,990	1,092,949	26.45%
Total	\$ 5,126,253	4,849,367	38,889	45,252	5,165,142	4,894,619	5.53%

Long-Term Debt

At June 30, 2013, the District had \$557,896 in total long-term debt outstanding. This represents a decrease of 56.43% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding termination benefits payable from the Management Levy Fund of \$487,489 at June 30, 2013.

The District had a net OPEB liability of \$70,407 at June 30, 2013.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Revenue bonds	\$ -	440,000	-	-	-	440,000	-100.00%
Capital loan note	-	195,000	-	-	-	195,000	-100.00%
Termination benefits	487,489	624,246	-	-	487,489	624,246	-21.91%
Net OPEB liability	68,439	21,356	1,968	-	70,407	21,356	229.68%
Total	\$ 555,928	1,280,602	1,968	-	557,896	1,280,602	-56.43%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- On July 1, 2013, the IPERS increase to 8.93% will increase the South O'Brien Community Schools employer benefit costs during fiscal 2014.

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 Dee Ann Lansink, School Business Manager, South O'Brien Community School District, 206 South Rutledge Street, Paullina, Iowa, 51046.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	South O'Brien School Foundation
ASSETS				
Cash and pooled investments	\$ 2,265,235	33,020	2,298,255	63,353
Receivables:				
Property tax:				
Delinquent	49,775	-	49,775	-
Succeeding year	3,900,508	-	3,900,508	-
Income surtax	349,583	-	349,583	-
Accounts	2,977	863	3,840	-
Due from other governments	256,957	-	256,957	-
Inventories	-	5,389	5,389	-
Capital assets, net of accumulated depreciation	5,126,253	38,889	5,165,142	-
TOTAL ASSETS	11,951,288	78,161	12,029,449	63,353
LIABILITIES				
Accounts payable	140,928	516	141,444	-
Salaries and benefits payable	619,932	5,827	625,759	-
Deferred revenue:				
Succeeding year property tax	3,900,508	-	3,900,508	-
Unearned revenue	-	5,451	5,451	-
Long-term liabilities:				
Portion due within one year:				
Termination benefits	136,757	-	136,757	-
Portion due after one year:				
Termination benefits	350,732	-	350,732	-
Net OPEB liability	68,439	1,968	70,407	-
TOTAL LIABILITIES	5,217,296	13,762	5,231,058	-
NET POSITION				
Invested in capital assets, net of related debt	5,126,253	38,889	5,165,142	-
Restricted for:				
Categorical funding	82,017	-	82,017	-
School infrastructure	417,679	-	417,679	-
Physical plant and equipment	201,098	-	201,098	-
Student activities	101,713	-	101,713	-
Unrestricted	805,232	25,510	830,742	63,353
TOTAL NET POSITION	\$ 6,733,992	64,399	6,798,391	63,353

SEE NOTES TO FINANCIAL STATEMENTS.

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit South O'Brien School Foundation
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Total	
				Governmental Activities	Business Type Activities		
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 2,817,766	69,731	50,971	(2,697,064)	-	(2,697,064)	-
Special	1,126,854	76,563	113,648	(936,643)	-	(936,643)	-
Other	1,093,396	276,132	141,178	(676,086)	-	(676,086)	-
	<u>5,038,016</u>	<u>422,426</u>	<u>305,797</u>	<u>(4,309,793)</u>	<u>-</u>	<u>(4,309,793)</u>	<u>-</u>
Support services:							
Student	113,942	-	4,004	(109,938)	-	(109,938)	-
Instructional staff	326,909	-	900	(326,009)	-	(326,009)	-
Administration	784,026	-	26,086	(757,940)	-	(757,940)	-
Operation and maintenance of plant	682,701	-	-	(682,701)	-	(682,701)	-
Transportation	324,982	1,618	5,888	(317,476)	-	(317,476)	-
	<u>2,232,560</u>	<u>1,618</u>	<u>36,878</u>	<u>(2,194,064)</u>	<u>-</u>	<u>(2,194,064)</u>	<u>-</u>
Long-term debt interest and fiscal charges	18,717	-	-	(18,717)	-	(18,717)	-
Other expenses:							
AEA flowthrough	265,903	-	265,903	-	-	-	-
Depreciation(unallocated)*	116,816	-	-	(116,816)	-	(116,816)	-
	<u>382,719</u>	<u>-</u>	<u>265,903</u>	<u>(116,816)</u>	<u>-</u>	<u>(116,816)</u>	<u>-</u>
Total governmental activities	7,672,012	424,044	608,578	(6,639,390)	-	(6,639,390)	-
Business Type activities:							
Support services:							
Administration	17,214	-	-	-	(17,214)	(17,214)	-
Operation and maintenance of plant	3,013	-	-	-	(3,013)	(3,013)	-
Transportation	2,512	-	-	-	(2,512)	(2,512)	-
	<u>22,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,739)</u>	<u>(22,739)</u>	<u>-</u>
Non-instructional programs:							
Nutrition services	299,787	131,635	140,659	-	(27,493)	(27,493)	-
Total business type activities	322,526	131,635	140,659	-	(50,232)	(50,232)	-
Total Primary Government	\$ 7,994,538	555,679	749,237	(6,639,390)	(50,232)	(6,689,622)	-
Total Component Unit	\$ 4,040	-	3,636	-	-	-	(404)
General Revenues and transfers:							
Property tax levied for:							
General purposes			\$ 3,367,426	-	-	3,367,426	-
Capital outlay			346,205	-	-	346,205	-
Income surtax			363,049	-	-	363,049	-
Statewide sales, services and use tax			586,505	-	-	586,505	-
Unrestricted state grants			2,915,634	-	-	2,915,634	-
Unrestricted investment earnings			13,725	243	-	13,968	420
Other			7,426	1,207	-	8,633	-
Transfers			(13,769)	13,769	-	-	-
Total general revenues and transfers			<u>7,586,201</u>	<u>15,219</u>	<u>-</u>	<u>7,601,420</u>	<u>420</u>
Changes in net position			946,811	(35,013)	-	911,798	16
Net position beginning of year, as restated			5,787,181	99,412	-	5,886,593	63,337
Net position end of year			<u>\$ 6,733,992</u>	<u>64,399</u>	<u>-</u>	<u>6,798,391</u>	<u>63,353</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments	\$ 1,499,410	560,336	205,489	2,265,235
Receivables:				
Property tax				
Delinquent	42,781	4,577	2,417	49,775
Succeeding year	3,269,146	361,362	270,000	3,900,508
Income surtax	209,746	139,837	-	349,583
Accounts	2,167	-	810	2,977
Due from other governments	169,808	87,149	-	256,957
Total assets	\$ 5,193,058	1,153,261	478,716	6,825,035
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 106,457	33,285	1,186	140,928
Salaries and benefits payable	619,932	-	-	619,932
Deferred revenue:				
Succeeding year property tax	3,269,146	361,362	270,000	3,900,508
Income surtax	209,746	139,837	-	349,583
Total liabilities	4,205,281	534,484	271,186	5,010,951
Fund balances:				
Restricted for:				
Categorical funding	82,017	-	-	82,017
Management levy purposes	-	-	106,169	106,169
School infrastructure	-	417,679	-	417,679
Physical plant and equipment	-	201,098	-	201,098
Student activities	-	-	101,713	101,713
Unassigned				
General	905,760	-	-	905,760
Student activities	-	-	(352)	(352)
Total fund balances	987,777	618,777	207,530	1,814,084
Total liabilities and fund balances	\$ 5,193,058	1,153,261	478,716	6,825,035

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$	1,814,084
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		5,126,253
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		349,583
Long-term liabilities, including termination benefits payable and other postemployment benefits payable, are not due and payable in the current period and, therefore are not reported in governmental funds.		<u>(555,928)</u>
Net position of governmental activities(page 18)	\$	<u><u>6,733,992</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 3,407,748	1,079,650	180,089	4,667,487
Tuition	128,396	-	-	128,396
Other	34,329	3,326	286,002	323,657
State sources	3,280,458	194	100	3,280,752
Federal sources	236,602	-	-	236,602
Total revenues	<u>7,087,533</u>	<u>1,083,170</u>	<u>466,191</u>	<u>8,636,894</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,797,040	7,083	172,858	2,976,981
Special	1,109,602	-	-	1,109,602
Other	854,879	-	276,445	1,131,324
	<u>4,761,521</u>	<u>7,083</u>	<u>449,303</u>	<u>5,217,907</u>
Support services:				
Student	113,231	-	-	113,231
Instructional staff	200,075	185,429	-	385,504
Administration	724,910	6,360	44,837	776,107
Operation and maintenance of plant	461,070	104,498	51,195	616,763
Transportation	329,788	100,857	15,134	445,779
	<u>1,829,074</u>	<u>397,144</u>	<u>111,166</u>	<u>2,337,384</u>
Capital outlay	-	213,859	-	213,859
Long-term debt:				
Principal	-	-	635,000	635,000
Interest and fiscal charges	-	-	28,056	28,056
	<u>-</u>	<u>-</u>	<u>663,056</u>	<u>663,056</u>
Other expenditures:				
AEA flowthrough	265,903	-	-	265,903
Total expenditures	<u>6,856,498</u>	<u>618,086</u>	<u>1,223,525</u>	<u>8,698,109</u>
Excess(Deficiency)of revenues over(under) expenditures	231,035	465,084	(757,334)	(61,215)
Other financing sources(uses):				
Sale of equipment	1,429	-	-	1,429
Transfer in	8,023	11,493	663,056	682,572
Transfer out	(11,493)	(663,056)	(8,023)	(682,572)
Total other financing sources(uses)	<u>(2,041)</u>	<u>(651,563)</u>	<u>655,033</u>	<u>1,429</u>
Change in fund balances	228,994	(186,479)	(102,301)	(59,786)
Fund balance beginning of year	<u>758,783</u>	<u>805,256</u>	<u>309,831</u>	<u>1,873,870</u>
Fund balance end of year	<u>\$ 987,777</u>	<u>618,777</u>	<u>207,530</u>	<u>1,814,084</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds(page 22) \$ (59,786)

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

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

Expenditures for capital assets	\$ 508,794	
Depreciation expense	<u>(231,908)</u>	276,886

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.		635,000
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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.		9,339
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Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(4,302)
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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.

Termination benefits	136,757	
Other postemployment benefits	<u>(47,083)</u>	<u>89,674</u>

Change in net position of governmental activities(page 19) \$ 946,811

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 33,020
Accounts receivable	863
Inventories	5,389
Capital assets, net of accumulated depreciation	<u>38,889</u>
Total assets	<u>78,161</u>
Liabilities	
Accounts payable	516
Salaries and benefits payable	5,827
Unearned revenues	5,451
Net OPEB liability	<u>1,968</u>
Total liabilities	<u>13,762</u>
Net position	
Invested in capital assets	38,889
Unrestricted	<u>25,510</u>
Total net position	<u>\$ 64,399</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 131,635
Miscellaneous	1,207
TOTAL OPERATING REVENUES	132,842
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	14,204
Benefits	3,010
Operation and maintenance of plant:	
Services	3,013
Transportation:	
Salaries	2,160
Benefits	352
	22,739
Non-instructional programs:	
Salaries	68,891
Benefits	30,963
Services	170
Supplies	179,631
Depreciation	20,132
	299,787
TOTAL OPERATING EXPENSES	322,526
OPERATING LOSS	(189,684)
NON-OPERATING REVENUES:	
State sources	2,718
Federal sources	137,941
Interest income	243
TOTAL NON-OPERATING REVENUES	140,902
Change in net position before capital contributions	(48,782)
Capital contributions	13,769
Change in net position	(35,013)
Net position beginning of year	99,412
Net position end of year	\$ 64,399

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 131,560
Cash received from miscellaneous operating activities	1,207
Cash payments to employees for services	(111,981)
Cash payments to suppliers for goods or services	(153,265)
Net cash used in operating activities	(132,479)
Cash flows from non-capital financing activities:	
State grants received	2,718
Federal grants received	114,343
Net cash provided by non-capital financing activities	117,061
Cash flows from investing activities:	
Interest on investments	243
Net decrease in cash and cash equivalents	(15,175)
Cash and cash equivalents at beginning of year	48,195
Cash and cash equivalents at end of year	\$ 33,020
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (189,684)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	23,598
Depreciation	20,132
Decrease in inventories	5,435
Increase in accounts receivable	(863)
Increase in accounts payable	516
Increase in salaries and benefits payable	5,631
Increase in unearned revenue	788
Increase in other postemployment benefits payable	1,968
Net cash used in operating activities	\$ (132,479)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$23,598.

During the year ended June 30, 2013, the School Nutrition Fund received contributed capital from the Capital Projects: Physical Plant and Equipment Levy Fund of \$13,769.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUND
 JUNE 30, 2013

	Private Purpose Trust
ASSETS	
Cash and pooled investments	\$ 3,416
LIABILITIES	
	-
NET POSITION	
Restricted for scholarships	\$ 3,416

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	Private Purpose Trust
	Scholarship Fund
Additions:	
Local sources:	
Interest	\$ 36
Deductions:	
Regular instruction:	
Scholarships awarded	200
Change in net position	(164)
Net position beginning of year, as restated	3,580
Net position end of year	\$ 3,416

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

The South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served primarily includes the Cities of Paullina, Primghar, Sutherland and Calumet, Iowa and the predominately agricultural territory in a portion of O'Brien, Cherokee, and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, South O'Brien 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.

Discretely Presented Component Unit - The South O'Brien Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The trustees are elected from nominations submitted by the Board of Education of the District. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a governmental fund in these financial statements.

Jointly Governed Organizations - 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 County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities and the collection and use of the statewide sales and services tax.

The District reports the following nonmajor proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The Nutrition Fund is used to account for the food service operations of the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund 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 are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which are valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	2,500
Land improvements	2,500
Intangible assets	75,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	15-50 years
Land improvements	15-50 years
Intangible assets	5-10 years
Machinery and equipment	5-15 years

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

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

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition Fund..

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgets and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. As of June 30, 2013, the District had no investments.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Physical Plant and Equipment Levy	\$ 203,083
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	459,973
Capital Projects: Physical Plant and Equipment Levy	General Fund	11,493
General Fund	Student Activity Fund	8,023
Total		<u>\$ 682,572</u>

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

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

The transfer from the General Fund to the Capital Projects: Physical Plant and Equipment Levy Fund were to repay the Capital Projects: Physical Plant and Equipment Levy for expenses which were unallowable in the prior year.

The transfer from the Student Activity Fund to the General Fund was to move Student Activity Fund accounts which were more appropriate out of the General Fund.

Note 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 65,933	2,581	-	68,514
Total capital assets not being depreciated	65,933	2,581	-	68,514
Capital assets being depreciated:				
Buildings	7,034,849	45,410	-	7,080,259
Land improvements	322,125	50,307	-	372,432
Machinery and equipment	3,880,754	410,496	423,912	3,867,338
Total capital assets being depreciated	11,237,728	506,213	423,912	11,320,029
Less accumulated depreciation for:				
Buildings	3,477,418	100,072	-	3,577,490
Land improvements	143,819	16,744	-	160,563
Machinery and equipment	2,833,057	115,092	423,912	2,524,237
Total accumulated depreciation	6,454,294	231,908	423,912	6,262,290
Total capital assets being depreciated, net	4,783,434	274,305	-	5,057,739
Governmental activities capital assets, net	\$ 4,849,367	276,886	-	5,126,253
Business type activities:				
Machinery and equipment	\$ 200,415	13,769	-	214,184
Less accumulated depreciation	155,163	20,132	-	175,295
Business-type activities capital assets, net	\$ 45,252	(6,363)	-	38,889

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$	14,108
Other		15,304
Support services:		
Instructional		23,224
Operation and maintenance		14,754
Transportation		47,702
		115,092
Unallocated depreciation		116,816
Total governmental activities depreciation expense	\$	231,908
Business type activities:		
Food services	\$	20,132

Note 5. Long-Term Debt

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue Bonds	\$ 440,000	-	440,000	-	-
Capital loan note	195,000	-	195,000	-	-
Termination Benefits	624,246	36,592	173,349	487,489	136,757
Net OPEB liability	21,356	47,083	-	68,439	-
Total	\$ 1,280,602	83,675	808,349	555,928	136,757
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ -	1,968	-	1,968	-

Note 6. Termination Benefits

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The 2013 early retirement incentive was \$30,000 per retiree, which is paid to a special pay plan, and will be paid over 5 years. At June 30, 2013, the District has obligations to 21 participants with a total liability of \$487,489. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$173,349.

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$353,306, \$333,593 and \$278,412 respectively, equal to the required contributions for each year.

Note 8. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 76 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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	\$	53,958
Interest on net OPEB obligation		534
Adjustment to annual required contribution		(1,297)
Annual OPEB cost		<u>53,195</u>
Contributions made		<u>(4,144)</u>
Increase in net OPEB obligation		49,051
Net OPEB obligation beginning of year		<u>21,356</u>
Net OPEB obligation end of year	\$	<u><u>70,407</u></u>

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

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 50,676	92.00%	\$ 12,331
2012	52,505	82.81%	21,356
2013	53,195	7.79%	70,407

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$420,720, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$420,720. The covered payroll (annual payroll of active employees covered by the plan was \$4,654,330, and the ratio of the UAAL to covered payroll was 9.04%. As of June 30, 2013, there were no trust fund assets.

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

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The

actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District’s funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 9. Risk Management

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

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$265,903 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Categorical Funding

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

Program	Amount
Four Year Old Preschool State Aid	\$ 19,570
Limited English Profecient Weighting	2,664
Teacher Salary Supplement	21,764
Professional Development	5,267
Gifted and Talented	31,084
Professional Development for Model Core Curriculum	1,668
Total	<u>\$ 82,017</u>

Note 12. Deficit Unassigned Balance

During the year ended June 30, 2013 the District had three accounts in the Student Activity Fund with a deficit unassigned fund balance of \$352.

Note 13. 28E Organization

The District is part of a 28E organization with the City of Paullina for the separate entity named the Swanson Sports Complex Commission (referred to hereafter as Commission). The Commission was established for the purpose of developing, supervising and managing a sports complex that includes fields for baseball, softball, tennis and other such recreational areas that can be utilized by the District and the residents of the City of Paullina.

The governing body of the Commission consists of three representatives appointed to staggered three year terms. Representatives of the Commission consist of one representative from the City of Paullina (appointed by the Paullina City Council); one representative from the District (appointed by the Board of Education) and one representative selected from residents of the District (appointed by joint decision of the Board President of the District and the Mayor of the City of Paullina).

The following are terms agreed upon by the District and the City of Paullina concerning the Commission:

The District and the City jointly own the property where the sports complex is located and are to share equally in the operational and maintenance costs of the sports complex.

Any contracts for purchases of goods or services over \$1,000 must have the approval of the District and the City of Paullina.

The Commission has the power to set rental rates, enter into debt agreements, accept donations, grants, labor or supplies for maintenance and operation of the sports complex.

The Commission shall prepare an annual budget for its operation for fiscal years ending June 30th by February 1st of each year for approval by the District and the City of Paullina. The Commission shall provide an annual report to the District and the City of Paullina detailing the annual budget and financial activity of the Commission.

This agreement is to remain in effect until either the District or the City of Paullina wishes to terminate the agreement. The Commission had revenues of \$14,500 and expenses of \$14,927 during the year. If you would like any other information on the Commission, please contact the South O'Brien Community School District.

Note 14. Accounting Restatement

During the year ended June 30, 2013, the South O'Brien School Foundation was reclassified as a component unit of the District. The effect of the fund type reclassification is as follows:

	Component Unit:	
	Private Purpose Trust	South O'Brien School Foundation
Balances June 30, 2012, as previously reported	\$ 66,917	-
Change in fund type classification	(63,337)	63,337
Balances July 1, 2012, as restated	<u>\$ 3,580</u>	<u>63,337</u>

Note 15. Detailed Reconciliation of Governmental Fund Balances to Net Position

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

	Management Levy Purposes	Unassigned/ Restricted Balances
Fund Balance (Exhibit C)	\$ 106,169	905,760
Unassigned student activity fund balance (Exhibit C)	-	(352)
Termination benefits payable	(106,169)	(381,320)
Income surtax	-	349,583
Net OPEB liability	-	(68,439)
Net position (Exhibit A)	<u>\$ -</u>	<u>805,232</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 5,119,540	133,085	5,252,625	5,054,591	5,054,591	198,034
State sources	3,280,752	2,718	3,283,470	3,265,678	3,265,678	17,792
Federal sources	236,602	137,941	374,543	355,000	355,000	19,543
Total revenues	<u>8,636,894</u>	<u>273,744</u>	<u>8,910,638</u>	<u>8,675,269</u>	<u>8,675,269</u>	<u>235,369</u>
Expenditures:						
Instruction	5,217,907	-	5,217,907	5,223,400	5,423,400	205,493
Support services	2,337,384	22,739	2,360,123	2,474,020	2,574,020	213,897
Non-instructional programs	-	299,787	299,787	340,000	340,000	40,213
Other expenditures	1,142,818	-	1,142,818	1,558,448	1,558,448	415,630
Total expenditures	<u>8,698,109</u>	<u>322,526</u>	<u>9,020,635</u>	<u>9,595,868</u>	<u>9,895,868</u>	<u>875,233</u>
Deficiency of revenues under expenditures	(61,215)	(48,782)	(109,997)	(920,599)	(1,220,599)	1,110,602
Other financing sources, net	<u>1,429</u>	<u>13,769</u>	<u>15,198</u>	<u>179,000</u>	<u>179,000</u>	<u>(163,802)</u>
Excess(Deficiency)of revenues and other financing sources over(under) expenditures	(59,786)	(35,013)	(94,799)	(741,599)	(1,041,599)	946,800
Balance beginning of year	<u>1,873,870</u>	<u>99,412</u>	<u>1,973,282</u>	<u>1,541,314</u>	<u>1,541,314</u>	<u>(431,968)</u>
Balance end of year	<u>\$ 1,814,084</u>	<u>64,399</u>	<u>1,878,483</u>	<u>799,715</u>	<u>499,715</u>	<u>514,832</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$300,000.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 562,000	\$ 562,000	0.00%	\$ 3,960,000	14.19%
2011	July 1, 2009	-	522,000	522,000	0.00%	4,100,000	12.73%
2012	July 1, 2009	-	475,000	475,000	0.00%	2,000,000	23.75%
2013	July 1, 2012	-	420,720	420,720	0.00%	4,654,330	9.04%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION – CASH BASIS
COMPONENT UNIT
JUNE 30, 2013

	South O'Brien School Foundation
Assets	
Cash and cash equivalents	\$ 63,353
Liabilities:	-
Net Position	
Unrestricted net position	\$ 63,353

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND
CHANGES IN NET POSITION – CASH BASIS
COMPONENT UNIT
YEAR ENDED JUNE 30, 2013

	South O'Brien School Foundation
Support and Revenue:	
Interest	\$ 420
Donations	3,416
Fundraisers	220
Total support and revenue	4,056
Expenses:	
Scholarships	4,000
Fundraising supplies	40
Total expenses	4,040
Excess of support and revenue over expenses	16
Net position beginning of year, as restated	63,337
Net position end of year	\$ 63,353

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 103,486	102,003	205,489
Receivables:			
Property tax:			
Delinquent	2,417	-	2,417
Succeeding year	270,000	-	270,000
Accounts	266	544	810
Total assets	<u>\$ 376,169</u>	<u>102,547</u>	<u>478,716</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	1,186	1,186
Deferred revenue:			
Succeeding year property tax	270,000	-	270,000
Total liabilities	<u>270,000</u>	<u>1,186</u>	<u>271,186</u>
Fund balances:			
Restricted for:			
Management levy purposes	106,169	-	106,169
Student activities	-	101,713	101,713
Unassigned:			
Student activities	-	(352)	(352)
Total fund balances	<u>106,169</u>	<u>101,361</u>	<u>207,530</u>
Total Liabilities and fund balances	<u>\$ 376,169</u>	<u>102,547</u>	<u>478,716</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Special Revenue			Debt Service	Total
	Management Levy	Student Activity	Total		
Revenues:					
Local sources:					
Local tax	\$ 180,089	-	180,089	-	180,089
Other	3,854	282,148	286,002	-	286,002
State sources	100	-	100	-	100
Total revenues	<u>184,043</u>	<u>282,148</u>	<u>466,191</u>	<u>-</u>	<u>466,191</u>
Expenditures:					
Current:					
Instruction:					
Regular	172,858	-	172,858	-	172,858
Other	-	276,445	276,445	-	276,445
Support services:					
Administration	44,728	109	44,837	-	44,837
Operation and maintenance of plant	50,335	860	51,195	-	51,195
Transportation	15,134	-	15,134	-	15,134
Long-term debt:					
Principal	-	-	-	635,000	635,000
Interest and fiscal charges	-	-	-	28,056	28,056
Total expenditures	<u>283,055</u>	<u>277,414</u>	<u>560,469</u>	<u>663,056</u>	<u>1,223,525</u>
Excess(Deficiency) of revenues over(under) expenditures	(99,012)	4,734	(94,278)	(663,056)	(757,334)
Other financing sources(uses):					
Transfer in	-	-	-	663,056	663,056
Transfer out	-	(8,023)	(8,023)	-	(8,023)
Total other financing sources(uses)	<u>-</u>	<u>(8,023)</u>	<u>(8,023)</u>	<u>663,056</u>	<u>655,033</u>
Change in fund balances	(99,012)	(3,289)	(102,301)	-	(102,301)
Fund balances beginning of year	<u>205,181</u>	<u>104,650</u>	<u>309,831</u>	<u>-</u>	<u>309,831</u>
Fund balances end of year	<u>\$ 106,169</u>	<u>101,361</u>	<u>207,530</u>	<u>-</u>	<u>207,530</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 356,279	204,057	560,336
Receivables:			
Property tax:			
Delinquent	-	4,577	4,577
Succeeding year	-	361,362	361,362
Income surtax	-	139,837	139,837
Due from other governments	87,149	-	87,149
Total assets	\$ 443,428	709,833	1,153,261
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 25,749	7,536	33,285
Deferred revenue:			
Succeeding year property tax	-	361,362	361,362
Income surtax	-	139,837	139,837
Total liabilities	25,749	508,735	534,484
Fund balances:			
Restricted for:			
School infrastructure	417,679	-	417,679
Physical plant and equipment	-	201,098	201,098
Total fund balances	417,679	201,098	618,777
Total Liabilities and Fund Balances	\$ 443,428	709,833	1,153,261

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 586,505	493,145	1,079,650
Other	1,883	1,443	3,326
State sources	-	194	194
Total revenues	<u>588,388</u>	<u>494,782</u>	<u>1,083,170</u>
Expenditures:			
Current:			
Instruction:			
Regular	7,083	-	7,083
Support services:			
Instructional staff	145,960	39,469	185,429
Administration	1,145	5,215	6,360
Operation and maintenance of plant	6,291	98,207	104,498
Transportation	-	100,857	100,857
Other expenditures:			
Capital outlay	170,605	43,254	213,859
Total expenditures	<u>331,084</u>	<u>287,002</u>	<u>618,086</u>
Excess of revenues over expenditures	257,304	207,780	465,084
Other financing sources(uses):			
Transfers in	-	11,493	11,493
Transfers out	(459,973)	(203,083)	(663,056)
Total other financing sources(uses)	<u>(459,973)</u>	<u>(191,590)</u>	<u>(651,563)</u>
Change in fund balances	(202,669)	16,190	(186,479)
Fund balances beginning of year	<u>620,348</u>	<u>184,908</u>	<u>805,256</u>
Fund balances end of year	<u>\$ 417,679</u>	<u>201,098</u>	<u>618,777</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund Transfers	Balance End of Year
General athletics	\$ 23,629	51,932	56,271	-	19,290
Cross country club	9	1,217	818	-	408
HS football club	1,656	7,916	8,962	-	610
Basketball club - boys	774	6,650	6,857	-	567
Baseball club	-	5,957	5,504	-	453
Track club	305	1,580	1,662	-	223
Golf club - boys	1	2,440	2,044	-	397
Basketball club - girls	587	4,238	3,474	-	1,351
Volleyball club	2,285	5,623	2,488	-	5,420
Softball club	2,218	2,809	3,864	-	1,163
Track club - girls	860	1,550	1,362	-	1,048
Golf club - girls	-	846	1,012	-	(166)
Wolverine club	-	11,560	11,560	-	-
Wolverine snack shack club	5,015	9,095	5,877	-	8,233
HS student council	1,120	3,268	3,547	-	841
FFA	13,027	41,939	39,416	-	15,550
Spanish club	236	-	-	-	236
Model UN	2,359	2,604	2,400	-	2,563
HS cheerleaders	3,324	13,090	12,539	-	3,875
HS science club	9,984	49,158	58,402	-	740
National honor society	788	1,623	1,577	-	834
HS art club	264	102	108	-	258
Dinner theater club	1,905	4,128	3,730	-	2,303
PA book club	-	110	110	-	-
HS instrumental music resale	-	170	298	-	(128)
HS vocal music resale	1,617	776	807	-	1,586
HS activity	2,912	3,471	2,835	(3,548)	-
Yearbook club	10,157	15,295	9,049	-	16,403
HS speech club	-	20	78	-	(58)
JH student council	7,151	-	-	-	7,151
JH music club	-	50	26	-	24
PR book club	138	165	-	-	303
Elementary activity	397	22,967	18,889	(4,475)	-
TAG club	2,413	538	685	-	2,266
Clothes for kids	2,649	1,020	1,093	-	2,576
Class of 2012	2	-	2	-	-
Class of 2013	896	568	545	-	919
Class of 2014	2,222	3,512	4,873	-	861
Class of 2015	470	1,644	-	-	2,114
Class of 2016	-	430	-	-	430
Weight room club	-	456	314	-	142
Elementary playground	3,280	1,197	3,902	-	575
Interest	-	434	434	-	-
Total	\$ 104,650	282,148	277,414	(8,023)	101,361

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 4,667,487	4,255,347	4,116,317	3,677,072	3,515,639	3,313,037	3,314,347	3,431,676	3,638,870	3,495,376
Tuition	128,396	119,376	136,813	88,895	189,657	134,946	136,085	121,513	104,325	107,411
Other	323,657	380,509	355,541	313,059	290,187	327,538	364,765	351,465	351,552	244,343
State sources	3,280,752	3,198,672	2,819,523	2,427,427	3,143,667	3,231,147	3,010,114	2,958,051	2,725,862	2,703,898
Federal sources	236,602	305,932	374,179	691,602	299,451	287,977	447,641	313,666	324,853	291,421
Total	\$ 8,636,894	8,259,836	7,802,373	7,198,055	7,438,601	7,294,645	7,272,952	7,176,371	7,145,462	6,842,449
Expenditures:										
Instruction:										
Regular	\$ 2,976,981	2,882,991	2,945,990	2,700,442	2,690,017	2,600,693	2,513,470	2,338,534	2,331,304	2,325,568
Special	1,109,602	1,003,511	944,430	904,458	925,227	916,288	922,488	914,675	855,630	853,525
Other	1,131,324	1,054,456	964,281	965,102	801,530	771,990	733,738	788,699	680,560	678,885
Support services:										
Student	113,231	108,247	149,953	165,072	166,623	156,887	158,246	262,464	274,449	303,429
Instructional staff	385,504	358,131	399,792	306,553	299,587	253,012	239,722	312,508	388,374	311,651
Administration	776,107	715,865	720,458	738,082	702,128	685,071	679,553	672,739	583,215	592,879
Operation and maintenance of plant	616,763	581,636	511,302	466,013	540,827	503,439	543,007	586,845	480,195	484,229
Transportation	445,779	361,939	325,076	381,294	311,771	426,176	427,034	349,115	288,567	362,863
Capital outlay	213,859	383,197	261,095	197,671	138,576	339,141	163,257	2,556,606	914,354	373,558
Long-term debt:										
Principal	635,000	395,000	385,000	365,000	366,449	356,454	346,454	331,454	111,454	11,454
Interest and fiscal charges	28,056	41,490	56,491	67,442	72,881	90,056	101,181	173,909	51,599	4,467
Other expenditures:										
AEA flow-through	265,903	250,710	278,142	276,664	257,835	252,401	244,936	239,076	235,162	241,662
Total	\$ 8,698,109	8,137,173	7,942,010	7,533,793	7,273,451	7,351,608	7,073,086	9,526,624	7,194,863	6,544,170

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Telephone (641) 792-1910

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

To the Board of Education of the South O'Brien Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of South O'Brien Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South O'Brien Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

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

South O'Brien Community School District's Responses to Findings

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

Purpose of this Report

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2014
Newton, Iowa

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Inventories - ordering, receiving, issuing and storing.
- 5) Wire transfers - processing and approving.
- 6) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 7) Computer systems - performing all general accounting functions and controlling all data input and output.
- 8) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - The District will continue to monitor the Segregation of Duties to the best of our ability. The Superintendent and Board President will continue to review some of our financial statements.

Conclusion - Response accepted.

I-B-13 Gate Receipts - We noted that the District does not use pre-numbered tickets for all events that require an admission.

Recommendation -The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to the individuals involved. The Board would of course, approve any policies that the District's business office should be involved in developing the detailed procedures. At a minimum the procedures should be:

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

Response - The District will review current practices to ensure the handling of activity fund receipts and deposits are monitored and reconciled properly.

Conclusion - Response accepted.

I-C-13 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The District will work with the Athletic Director to insure that time sheets are used and monitored for non-certified coaches.

Conclusion - Response accepted.

I-D-13 Checks Made Payable to Cash - We noted during our audit instances of checks for start-up money for gates in the Activity Fund made payable only to “Iowa State Bank”.

Recommendation - Checks made out to the bank only are considered bearer paper and in the event the check would be lost or stolen anyone could cash the check. In the future, the District should write the check to the custodian/sponsor of the event and the bank.

Response - The District will ensure that checks made to the bank for deposit will include the name of the person making the deposit, not just the bank.

Conclusion - Response accepted.

OTHER MATTERS:

I-E-13 Board Policies - We noted during our audit some of the policies in the District's board policy book appear to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

Recommendation - The District should review the board policy book and update all policies that have not been updated within the past five years. The District should take steps to review board policies in a more timely manner.

Response - The District will review the out of date policies and update them to get back to a regular review schedule.

Conclusion - Response accepted.

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

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

Response - The District will use appropriate pricing sheets and make adjustments to journal entries.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

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

II-B-13 Questionable Disbursements - **Clothing Items Purchased for Staff:** We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

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

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

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

Response - The District will review and monitor current practices, and make adjustment to our purchasing to follow the auditor's advice.

Conclusion - Response accepted.

Gift Card Purchases: We noted the District purchased gift cards and gift certificates from the Elementary Activity Account in the Student Activity Fund to be given as prizes for the top sellers for fundraisers. Giving gift cards to students does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

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

Response - The District will review current policies and make adjustment to comply.

Conclusion - Response accepted.

II-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees which lacked a detailed receipt. According to board policy number 401.10, a detailed receipt must be turned in for every purchase made with the District credit card.

Recommendation - The District should review procedures in place with personnel who use the District's credit card to ensure the proper detailed documentation will be available with paid credit card statements.

Response - The District will continue to monitor and enforce current policies to ensure proper documentation for travel expenses.

Conclusion - Response accepted.

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

Name, Title and Business Connection	Transaction Description	Amount
Clara Black, Bus Driver Owns Black's Farm Store	Supplies	\$854
Jessica Waterman, High School Secretary Owns Custom Creations	Supplies	\$1,388
Rick Weideman, Bus Driver Owns Weidaman's True Value Hardware	Supplies	\$10,828
Bill Boer, High School Principal Spouse owns of A+ Painting	Painting	\$249
Julie Paulsen, Girls Head Track Coach Sister owns Any Wear Apparel	Supplies	\$2,076
Shalene VanBeek, High School Secretary Spouse owns Dan's Electric Inc.	Services	\$30,761
Mark Fuhrman, Head Football Coach Spouse employed by Darren's Clothing Co.	Supplies	\$7,029
Jessica Waterman, High School Secretary Father owns Paullina Building Center	Supplies	\$4,240
Michelle Aberson, Teacher Spouse owns Paullina Chiropractic	Services	\$255
Heath Reichle, Athletic Director Father owns Reichle Painting	Services	\$4,600
Kris Fanst, Teacher Spouse owns South O'Brien Insurance Co.	Insurance	\$110,197
Darrell Rehdeer, Board Member School event worker	Services	\$276
Kiley Yates, Teacher Business Owner	Apparel	\$9,039

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Clara Black, Jessica Waterman, and Rick Weideman do not appear to represent a conflict of interest.

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

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member Darrell Rehdeer does not appear to be a conflict of interest.

The above transactions between the District and Kiley Yates appear to create a conflict of interest. Chapter 301.28 of the Code of Iowa states in part, "A school director, officer or teacher shall not act as agent for the purchase of school textbooks or school supplies, including sports apparel or equipment, in any transaction..." The purchase of sports apparel from the teachers business appears to be in violation of this code section.

Recommendation - The District should contact its attorney regarding this matter to determine the legality of these transactions and if any corrective action is required.

Response - The District will contact our Attorney for a final determination to determine the legality of these purchases.

Conclusion - Response accepted.

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

II-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted in the board minutes that the District's management talked to the board about the audit report and comments before the audit report was final. We also noted that the board minutes do not list out the limits on the depositories.

Recommendation - If the board would like to discuss the audit report before it goes final the board must go into a closed session meeting. The board minutes should also include a listing of all banks and deposit limits for the depository resolution.

Response - The District will not review findings from the Audit until it is final. The Board minutes will properly list and reflect the limits for the deposits in designated banks.

Conclusion - Response accepted.

II-G-13 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

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

II-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

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

II-L-13 Statewide Sales, Services and Use Tax - According to the District's revenue purpose statement, statewide sales, services and use tax money can be spent for PPEL type expenditures. According to Chapter 298.3 of the Code of Iowa, PPEL monies may not be used for preventative and routine maintenance. We noted during our audit that the District had expenditures of \$6,636.70 in unallowable repairs and maintenance.

Recommendation - The District should review the revenue purpose statement for the use of statewide sales, services and use tax as well as Chapter 298.3 of the Code of Iowa with regard to allowable expenditures from PPEL Funds to avoid noncompliance. Since the District had allowable Statewide Sales, Services and Use Fund expenditures from the General Fund, we did not request a corrective transfer on the financial statements.

Response - The District will continue to monitor expenditures and use our best judgment to code to the proper fund.

Conclusion - Response accepted.

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

Beginning Balance		\$	620,348
Revenues:			
Sales tax revenues	\$	586,505	
Other local revenues		1,883	
		<u>1,883</u>	<u>588,388</u>
			1,208,736
Expenditures/transfers out:			
School infrastructure construction		125,994	
Equipment		110,279	
Other		94,811	
Transfers to other funds:			
Debt service fund		459,973	
		<u>459,973</u>	<u>791,057</u>
Ending balance			<u>\$ 417,679</u>

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

II-M-13 Physical Plant and Equipment Levy(PPEL) Expenditures - We noted during our audit that the District made purchases from the PPEL Fund which do not appear to be in compliance with Chapter 423 and 298.3 of the Code of Iowa. The District had expenditures of \$9,278.05 for preventative maintenance and repairs.

Recommendation - Expenditures for preventative maintenance are more appropriate from the General Fund. The District should review Chapter 423 and Chapter 298 of the Code of Iowa for allowability of expenditures from the PPEL Fund. Since the District had allowable PPEL expenditures from the General Fund, we did not request a corrective transfer on the financial statements.

Response - The District will continue to monitor expenditures and use our best judgment to code to the proper fund.

Conclusion - Response accepted.

II-N-13 Financial Condition - During the year ended June 30, 2013 the District had three accounts with a total deficit unassigned balance of \$352 in the Student Activity Fund.

Recommendation - The District should monitor this fund and investigate alternatives to eliminate the deficit accounts.

Response - The District will monitor this fund to ensure all funds operate with a positive balance.

Conclusion - Response accepted.

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

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

Response - The District will monitor and ensure all contracts include the signature of the Board President.

Conclusion - Response accepted.

II-P-13 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students.

Questionable Account: We noted a PA Book Club, PR Book Club, and Elementary Playground accounts in the Student Activity Fund. The revenues and expenditures related to these accounts appear to be for instructional items and therefore, would be more appropriately handled in the General Fund. We also noted a Wolverine Snack Shack Club account in the Student Activity Fund which is a student run store and would be more appropriately accounted for as an Enterprise Fund.

Recommendation - The District should review the propriety of the revenues and expenditures that are approved in the Student Activity Fund. The revenues and expenditures in the PA Book Club, PR Book Club, and Elementary Playground accounts appear to be more instructional in nature and would be more appropriate in the General Fund. The Wolverine Snack Shack Club account appears to be more appropriate as an Enterprise Fund.

Response - The District will ensure all accounts noted are transferred to the proper fund.

Conclusion - Response accepted.

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

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

Response - The District will continue to receipt revenues from these organizations into the General Fund.

Conclusion - Response accepted.

II-Q-13 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.8 of the Code of Iowa requires that the District's Board Secretary sign all District checks. The Board Secretary cannot designate an individual to sign on his/her behalf. Chapter 291.1 of the Code of Iowa requires the District's Board President to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf.

Recommendation - The District should review procedures in place to ensure that the proper signatures are on all checks in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response -The District will monitor and correct this action immediately.

Conclusion - Response accepted.

II-R-13 Student Activity Fund Payments to Students - The District sponsors an optional science trip for high school students each year. We noted that monies remaining in the Student Activity Fund trip account after the trip was paid to the students. According to the Iowa Supreme Court Ruling of the 1967 Senior Class of Pekin vs Tharp, "an excess of revenues over expenditures for any student activity remains under the control of the board and may not be distributed to any individual member of such activity."

Recommendation - Monies remaining after the trip should be retained in the Student Activity Fund and used for the next year's trip. If the District stops sponsoring the trip the monies should be retained and be used for other District extracurricular activities.

Response - The District has ceased this practice that has been done in the past.

Conclusion - Response accepted.