

ALGONA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2013 Elections)

Floyd Lavrenz	President	2015
Cheryl Grether	Vice President	2013
Keith Kuecker	Board Member	2013
Jody Solbach	Board Member	2015
Jay Limbaugh	Board Member	2013
Bruce Knudsen	Board Member	2015
Rodney Davis	Board Member	2015

(After September 2013 Elections)

Floyd Lavrenz	President	2015
Cheryl Grether	Vice President	2017
Brent Owen	Board Member	2014
Jody Solbach	Board Member	2015
Jay Limbaugh	Board Member	2017
Bruce Knudsen	Board Member	2015
Rodney Davis	Board Member	2015

School Officials

Marty Fonley	Superintendent	2014
Mary Beth Cooper	Board Secretary/Treasurer	2014
Stephen Avery	Attorney	2014
Tom Lipps	Attorney	2014

Algona Community School District



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Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Algona Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013(which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$14,766,610 in fiscal year 2013 to \$14,758,649 in fiscal year 2014, while General Fund expenditures increased from \$14,562,875 in fiscal year 2013 to \$14,727,990 in fiscal year 2014. Revenues still outpaced expenditures causing an increase in the District's General Fund balance from \$2,367,776 at June 30, 2013 to \$2,398,435 at June 30, 2014.
- The decrease in General Fund revenues was attributable to a decrease in property tax revenues in fiscal year 2014. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits paid to District employees.

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

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

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

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

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

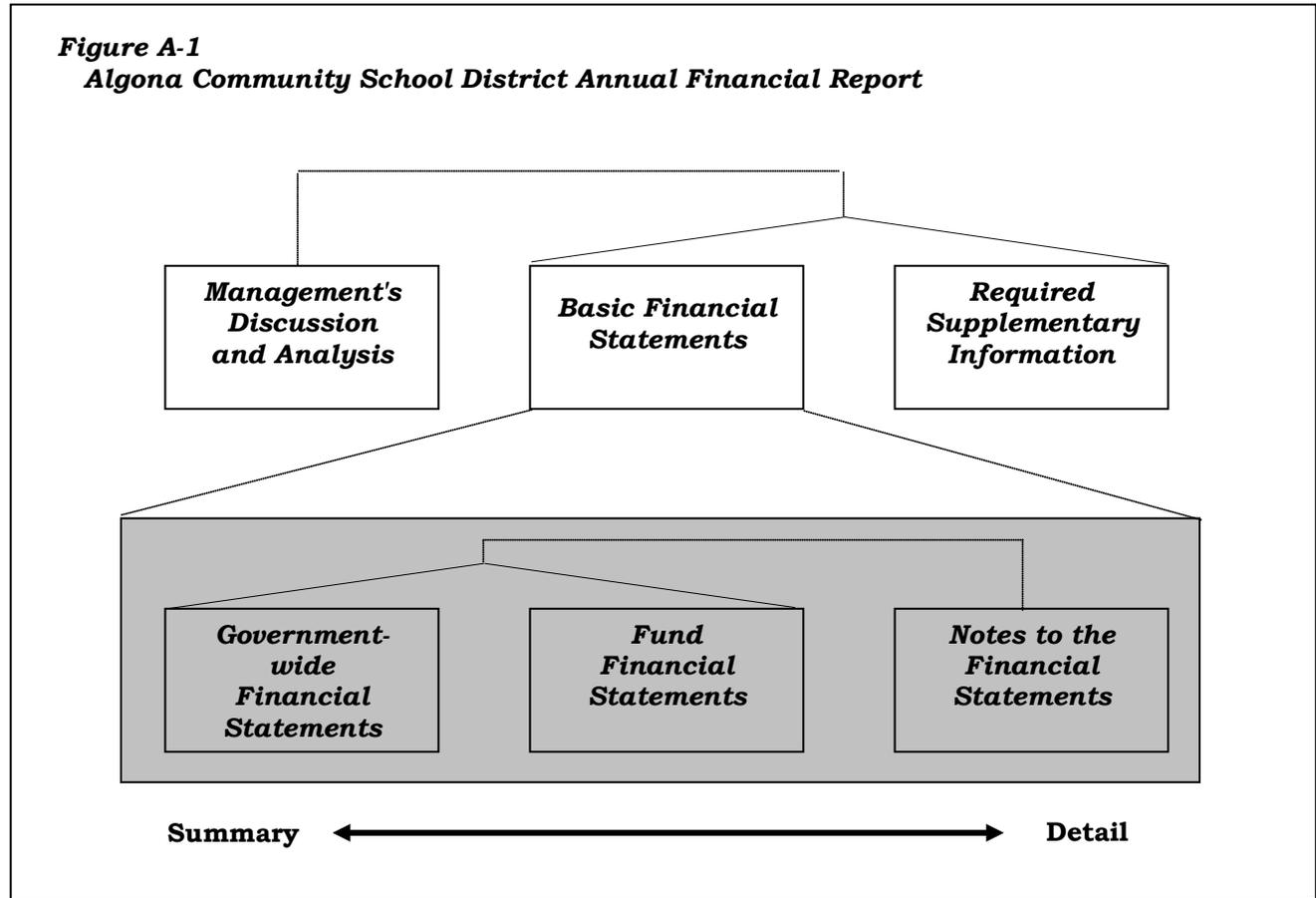


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 service	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, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

In the government-wide financial statements, the District's activities are divided into three 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.
- *Component Unit:* The Algona Community School Foundation was created to develop, increase and extend the facilities and services of the Algona Community School District while providing for boarder educational opportunities. The foundation provides scholarships to graduates and classroom grants within the District.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

The required financial statements for the proprietary funds include a Statement of Net Position, 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. This fund includes the Agency Fund.

- Agency Fund - These are funds through which the District administers and accounts for certain outside organizations.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-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 governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 7,105,996	13,596,779	103,587	45,499	7,209,583	13,642,278	-47.15%
Capital assets	12,392,460	12,526,711	65,093	65,911	12,457,553	12,592,622	-1.07%
Total assets	19,498,456	26,123,490	168,680	111,410	19,667,136	26,234,900	-25.03%
Long-term liabilities	8,342,830	8,513,995	19,560	15,609	8,362,390	8,529,604	-1.96%
Other liabilities	665,178	1,217,442	3,113	55,977	668,291	1,273,419	-47.52%
Total liabilities	9,008,008	9,731,437	22,673	71,586	9,030,681	9,803,023	-7.88%
Deferred inflows of resources	-	5,954,990	-	-	-	5,954,990	-100.00%
Net position:							
Net investment in capital assets	4,752,460	4,476,711	65,093	65,911	4,817,553	4,542,622	6.05%
Restricted	3,036,473	2,804,066	-	-	3,036,473	2,804,066	8.29%
Unrestricted	2,701,515	3,156,286	80,914	(26,087)	2,782,429	3,130,199	-11.11%
Total net position	\$ 10,490,448	10,437,063	146,007	39,824	10,636,455	10,476,887	1.52%

The District's combined net position increased by 1.52%, or \$159,568, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position increased \$232,407, or 8.29% over the prior year. The increase in restricted net position can be attributed to the increase in the Capital Projects: Physical Plant and Equipment Levy Fund balance.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$347,770 or 11.11%. The decrease in unrestricted net position can be attributed to the increase in the District's categorical funding carryover balance in the General Fund during the year.

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

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for service	\$ 2,289,116	1,980,654	332,664	305,546	2,621,780	2,286,200	14.68%
Operating grants, contributions and restricted interest	1,293,029	1,257,257	357,022	335,368	1,650,051	1,592,625	3.61%
Capital grants, contributions and restricted interest	104,681	-	-	-	104,681	-	100.00%
General revenues:							
Property tax	5,967,126	6,221,236	-	-	5,967,126	6,221,236	-4.08%
Income surtax	743,915	643,247	-	-	743,915	643,247	15.65%
Statewide sales, services and use tax	1,044,117	1,058,229	-	-	1,044,117	1,058,229	-1.33%
Unrestricted state grants	5,798,392	5,708,556	-	-	5,798,392	5,708,556	1.57%
Unrestricted investment earnings	2,570	2,848	-	1	2,570	2,849	-9.79%
Other	27,615	162,277	19,449	16,524	47,064	178,801	-73.68%
Total revenues	17,270,561	17,034,304	709,135	657,439	17,979,696	17,691,743	1.63%
Program expenses:							
Instruction	11,504,955	10,918,847	6,984	22,089	11,511,939	10,940,936	5.22%
Support services	4,210,956	4,268,819	7,674	12,207	4,218,630	4,281,026	-1.46%
Non-instructional programs	-	-	658,150	608,250	658,150	608,250	8.20%
Other expenses	1,431,409	1,420,945	-	-	1,431,409	1,420,945	0.74%
Total expenses	17,147,320	16,608,611	672,808	642,546	17,820,128	17,251,157	3.30%
Excess of revenues over expenditures	123,241	425,693	36,327	14,893	159,568	440,586	-63.78%
Transfers	(69,856)	-	69,856	-	-	-	0.00%
Change in net position	53,385	425,693	106,183	14,893	159,568	440,586	-63.78%
Net position beginning of year	10,437,063	10,011,370	39,824	24,931	10,476,887	10,036,301	4.39%
Net position end of year	\$ 10,490,448	10,437,063	146,007	39,824	10,636,455	10,476,887	1.52%

In fiscal year 2014, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants accounted for 78.48% of the revenue from governmental activities while charges for service and operating grants and contributions accounted for 97.26% of the revenue from business type activities.

The District's total revenues were approximately \$18.0 million of which approximately \$17.3 million was for governmental activities and approximately \$0.7 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 1.63% in revenues and a 3.30% increase in expenses. The increase in expenses was related to the increase in instruction costs during the year. The increase in revenues was related to an increase in local tax revenues.

Governmental Activities

Revenues for governmental activities were \$17,270,561 and expenses were \$17,147,320.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	June 30,		Change 2013-14	June 30,		Change 2013-14
	2014	2013		2014	2013	
Instruction	\$ 11,504,955	10,918,847	5.37%	8,618,997	8,325,694	3.52%
Support services	4,210,956	4,268,819	-1.36%	3,953,496	4,154,927	-4.85%
Other expenses	1,431,409	1,420,945	0.74%	888,001	890,079	-0.23%
Totals	<u>\$ 17,147,320</u>	<u>16,608,611</u>	<u>3.24%</u>	<u>13,460,494</u>	<u>13,370,700</u>	<u>0.67%</u>

- The cost financed by users of the District's programs was \$2,289,116.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$1,397,710.
- The net cost of governmental activities was financed with \$5,967,126 in property tax, \$743,915 in income surtax, \$1,044,117 in statewide sales, services and use tax, \$5,798,392 in unrestricted state grants, \$2,570 in interest income and \$27,615 in other general revenues.

Business type Activities

Revenues for the District's business type activities were \$709,135 and expenses were \$672,808. The District's business type activities include the School Nutrition Fund and the Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income and other general revenues.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance at June 30, 2014 of \$4,721,077, compared to \$4,466,264 at June 30, 2013. The primary reason for the increase was the increase the Capital Projects Fund balance.

Governmental Fund Highlights

- The District's General Fund balance increased from \$2,367,776 at June 30, 2013 to \$2,398,435 at June 30, 2014. The District's General Fund financial position is the product of many factors. An increase in tuition and state source revenues helped fund the increase expenditures during fiscal year 2014, resulting in the slight increase in fund balance of the General Fund.
- The Capital Projects Fund balance increased from \$625,079 at June 30, 2013 to \$897,650 at June 30, 2014. The Capital Projects: Statewide Sales, Services and Use Tax account balance increased from \$536,309 at June 30, 2013 to \$559,953 at June 30, 2014. The Capital Projects: Physical Plant and Equipment Levy account balance increased from \$88,770 at June 30, 2013 to \$337,697 at June 30, 2014.
- The Debt Service Fund balance slightly increased from \$818,107 at June 30, 2013 to \$818,858 at June 30, 2014.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$113,819 at June 30, 2013 to \$134,899 at June 30, 2014, representing an increase of 18.52%. The District's Preschool Fund net position improved from a deficit balance of \$73,995 at June 30, 2013 to a balance of \$11,108 at June 30, 2014.

BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Community School District amended its budget one time to reflect additional revenues and expenditures in the non-instructional programs functional area.

The District's revenues were \$670,066 more than budgeted revenues, a variance of 3.89%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$12,457,553, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.07% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$694,043.

The original cost of the District's capital assets was \$24,658,343. Governmental funds account for \$24,495,819 with the remainder of \$162,524 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 \$854,147 at June 30, 2013 compared to \$933,127 at June 30, 2014. This increase can be attributed to the purchase of two buses, the purchase of a video scoreboard and the District updating its phone system.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 87,674	87,674	-	-	87,674	87,674	0.00%
Buildings	11,239,842	11,438,286	-	-	11,239,842	11,438,286	-1.73%
Land improvements	196,910	212,515	-	-	196,910	212,515	-7.34%
Machinery and equipment	868,034	788,236	65,093	65,911	933,127	854,147	9.25%
Total	\$ 12,392,460	12,526,711	65,093	65,911	12,457,553	12,592,622	-1.07%

Long-Term Debt

At June 30, 2014, the District had long-term debt outstanding of \$8,362,390 in long-term debt outstanding. This represents a decrease of 1.96% from the prior 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 \$7,640,000 of outstanding revenue bonds at June 30, 2014, payable from the Capital Projects: Statewide Sales, Service and Use Tax Fund.
- The District had \$196,588 of outstanding termination benefits at June 30, 2014, payable from the Special Revenue, Management Levy Fund.
- The District had a net OPEB liability of \$525,802 at June 30, 2014. Governmental activities account for \$506,242 of this total while business type activities account for the remaining \$19,560.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenue bonds	\$ 7,640,000	8,050,000	-	-	7,640,000	8,050,000	-5.09%
Termination benefits	196,588	60,000	-	-	196,588	60,000	227.65%
Net OPEB liability	506,242	403,995	19,560	15,609	525,802	419,604	25.31%
Total	\$ 8,342,830	8,513,995	19,560	15,609	8,362,390	8,529,604	-1.96%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- On February 5, 2013, the Titonka Consolidated School District and the Algona Community School District held a public meeting for consolidation of the two districts. Residents of the Titonka Consolidated School District passed the resolution to merge with Algona Community School District on a 79.9% vote. Residents of the Algona Community School District passed a resolution to merge with Titonka Consolidated School District on a 95% vote. On July 1, 2014, the two Districts operations were consolidated as one.

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 Mary Beth Cooper, District Secretary/Treasurer, Algona Community School District, 600 S. Hale St., Algona, Iowa, 50511.

Basic Financial Statements

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

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Algon Community School Foundation*
Assets				
Cash and pooled investments	\$ 5,555,265	63,390	5,618,655	4,482,555
Receivables:				
Property tax:				
Delinquent	60,194	-	60,194	-
Income surtax	617,976	-	617,976	-
Accounts	6,997	19,578	26,575	-
Due from other governments	865,564	1,659	867,223	-
Inventories	-	18,960	18,960	-
Capital assets, net of accumulated depreciation	12,392,460	65,093	12,457,553	-
Total assets	19,498,456	168,680	19,667,136	4,482,555
Liabilities				
Accounts payable	275,741	1,186	276,927	-
Salaries and benefits payable	89,437	1,927	91,364	-
Retainage payable	10,000	-	10,000	-
Incurred but not reported	290,000	-	290,000	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	420,000	-	420,000	-
Termination benefits	74,650	-	74,650	-
Portion due after one year:				
Revenue bonds	7,220,000	-	7,220,000	-
Termination benefits	121,938	-	121,938	-
Net OPEB liability	506,242	19,560	525,802	-
Total liabilities	9,008,008	22,673	9,030,681	-
Deferred Inflows of Resources	-	-	-	-
Net Position				
Net investment in capital assets	4,752,460	65,093	4,817,553	-
Restricted for:				
Scholarships/District support	-	-	-	4,108,872
Categorical funding	901,208	-	901,208	-
Management levy purposes	225,075	-	225,075	-
Student activities	193,682	-	193,682	-
School infrastructure	559,953	-	559,953	-
Physical plant and equipment	337,697	-	337,697	-
Debt service	818,858	-	818,858	-
Unrestricted	2,701,515	80,914	2,782,429	373,683
Total net position	\$ 10,490,448	146,007	10,636,455	4,482,555

* Year end for the Algona Community School Foundation was December 31, 2013.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit Algonia Community School Foundation*
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government		Total	
					Governmental Activities	Business Type Activities		
Functions/Programs:								
Governmental activities:								
Instruction:								
Regular	\$ 6,139,986	974,598	83,954	-	(5,081,434)	-	(5,081,434)	-
Special	3,186,219	640,633	79,910	-	(2,465,676)	-	(2,465,676)	-
Other	2,178,750	612,756	494,107	-	(1,071,887)	-	(1,071,887)	-
	<u>11,504,955</u>	<u>2,227,987</u>	<u>657,971</u>	<u>-</u>	<u>(8,618,997)</u>	<u>-</u>	<u>(8,618,997)</u>	<u>-</u>
Support services:								
Student	293,219	-	-	-	(293,219)	-	(293,219)	-
Instructional staff	272,791	-	7,348	-	(265,443)	-	(265,443)	-
Administration	1,139,412	50,081	-	-	(1,089,331)	-	(1,089,331)	-
Operation and maintenance of plant	1,864,691	-	-	104,681	(1,760,010)	-	(1,760,010)	-
Transportation	640,843	11,048	84,302	-	(545,493)	-	(545,493)	-
	<u>4,210,956</u>	<u>61,129</u>	<u>91,650</u>	<u>104,681</u>	<u>(3,953,496)</u>	<u>-</u>	<u>(3,953,496)</u>	<u>-</u>
Long-term debt interest	376,581	-	-	-	(376,581)	-	(376,581)	-
Other expenditures:								
AEA flowthrough	543,408	-	543,408	-	-	-	-	-
Depreciation(unallocated)**	511,420	-	-	-	(511,420)	-	(511,420)	-
	<u>1,054,828</u>	<u>-</u>	<u>543,408</u>	<u>-</u>	<u>(511,420)</u>	<u>-</u>	<u>(511,420)</u>	<u>-</u>
Total governmental activities	<u>17,147,320</u>	<u>2,289,116</u>	<u>1,293,029</u>	<u>104,681</u>	<u>(13,460,494)</u>	<u>-</u>	<u>(13,460,494)</u>	<u>-</u>
Business type activities:								
Instruction:								
Regular	6,984	-	-	-	-	(6,984)	(6,984)	-
Support services:								
Administration	425	-	-	-	-	(425)	(425)	-
Operation and maintenance of plant	7,249	-	-	-	-	(7,249)	(7,249)	-
	<u>7,674</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,674)</u>	<u>(7,674)</u>	<u>-</u>
Non-instructional programs:								
Food service operations	658,150	332,664	357,022	-	-	31,536	31,536	-
Total business type activities	<u>672,808</u>	<u>332,664</u>	<u>357,022</u>	<u>-</u>	<u>-</u>	<u>16,878</u>	<u>16,878</u>	<u>-</u>
Total primary government	<u>\$ 17,820,128</u>	<u>2,621,780</u>	<u>1,650,051</u>	<u>104,681</u>	<u>(13,460,494)</u>	<u>16,878</u>	<u>(13,443,616)</u>	<u>-</u>
Total component unit	<u>\$ 277,870</u>	<u>-</u>	<u>333,675</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,805</u>
General Revenues and Transfers:								
Property tax levied for:								
General purposes					\$5,416,856	-	5,416,856	-
Capital outlay					550,270	-	550,270	-
Income surtax					743,915	-	743,915	-
Statewide sales, service and use tax					1,044,117	-	1,044,117	-
Unrestricted state grants					5,798,392	-	5,798,392	-
Unrestricted investment earnings					2,570	-	2,570	128,620
Realized gain on investments					-	-	-	317,952
Unrealized gain on investments					-	-	-	390,751
Other general revenues					27,615	19,449	47,064	-
Transfers					(69,856)	69,856	-	-
Total general revenues and transfers					<u>13,513,879</u>	<u>89,305</u>	<u>13,603,184</u>	<u>837,323</u>
Change in net position					53,385	106,183	159,568	893,128
Net position beginning of year					10,437,063	39,824	10,476,887	3,589,427
Net position end of year					<u>\$ 10,490,448</u>	<u>146,007</u>	<u>10,636,455</u>	<u>4,482,555</u>

* Year end for the Algona Community School Foundation was December 31, 2013.

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,897,845	837,603	818,858	609,194	4,163,500
Receivables:					
Property tax:					
Delinquent	51,615	5,546	-	3,033	60,194
Income surtax	617,976	-	-	-	617,976
Accounts	6,997	-	-	-	6,997
Due from other governments	700,628	164,936	-	-	865,564
Total assets	3,275,061	1,008,085	818,858	612,227	5,714,231
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 169,213	100,435	-	6,093	275,741
Salaries and benefits payable	89,437	-	-	-	89,437
Retainage payable	-	10,000	-	-	10,000
Total liabilities	258,650	110,435	-	6,093	375,178
Deferred inflows of resources:					
Unavailable revenues:					
Income surtax	617,976	-	-	-	617,976
Fund balances:					
Restricted for:					
Categorical funding	901,208	-	-	-	901,208
Management levy purposes	-	-	-	421,663	421,663
Student activities	-	-	-	193,682	193,682
School infrastructure	-	559,953	-	-	559,953
Physical plant and equipment	-	337,697	-	-	337,697
Debt service	-	-	818,858	-	818,858
Unassigned:					
General	1,497,227	-	-	-	1,497,227
Student activities	-	-	-	(9,211)	(9,211)
Total fund balances	2,398,435	897,650	818,858	606,134	4,721,077
Total liabilities, deferred inflows of resources and fund balances	\$ 3,275,061	1,008,085	818,858	612,227	5,714,231

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds(page 20)	\$	4,721,077
 <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.		12,392,460
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,101,765
Accounts receivable income surtax, are not yet available to finance expenditures of the current year and, therefore, are recognized as deferred inflows of resources in the governmental funds.		617,976
Long-term liabilities, including revenue bonds payable, termination benefits payable and other postemployment benefits payable are not due and payable in the current year and, therefore, are not reported in governmental funds.		<u>(8,342,830)</u>
Net position of governmental activities(page 18)	\$	<u><u>10,490,448</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 5,788,604	550,270	-	300,614	6,639,488
Tuition	1,607,938	-	-	-	1,607,938
Other	275,820	105,112	59	443,309	824,300
State sources	6,784,942	1,044,117	-	-	7,829,059
Federal sources	298,223	-	-	-	298,223
Total revenues	<u>14,755,527</u>	<u>1,699,499</u>	<u>59</u>	<u>743,923</u>	<u>17,199,008</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	5,740,558	-	-	129,614	5,870,172
Special	2,997,057	-	-	-	2,997,057
Other	1,738,412	-	-	435,821	2,174,233
	<u>10,476,027</u>	<u>-</u>	<u>-</u>	<u>565,435</u>	<u>11,041,462</u>
Support services:					
Student	265,572	-	-	-	265,572
Instructional staff	208,841	59,627	-	-	268,468
Administration	1,126,466	-	-	-	1,126,466
Operation and maintenance of plant	1,506,939	52,942	-	227,656	1,787,537
Transportation	530,881	194,904	-	-	725,785
	<u>3,638,699</u>	<u>307,473</u>	<u>-</u>	<u>227,656</u>	<u>4,173,828</u>
Capital outlay	-	332,182	-	-	332,182
Long-term debt:					
Principal	-	-	410,000	-	410,000
Interest and fiscal charges	-	-	376,581	-	376,581
	<u>-</u>	<u>-</u>	<u>786,581</u>	<u>-</u>	<u>786,581</u>
Other expenditures:					
AEA flowthrough	543,408	-	-	-	543,408
Total expenditures	<u>14,658,134</u>	<u>639,655</u>	<u>786,581</u>	<u>793,091</u>	<u>16,877,461</u>
Excess(Deficiency) of revenues over(under) expenditures	97,393	1,059,844	(786,522)	(49,168)	321,547
Other financing sources(uses):					
Sale of equipment	3,122	-	-	-	3,122
Transfers in	-	-	787,273	-	787,273
Transfers out	(69,856)	(787,273)	-	-	(857,129)
Total other financing sources(uses)	<u>(66,734)</u>	<u>(787,273)</u>	<u>787,273</u>	<u>-</u>	<u>(66,734)</u>
Change in fund balances	30,659	272,571	751	(49,168)	254,813
Fund balances beginning of year	<u>2,367,776</u>	<u>625,079</u>	<u>818,107</u>	<u>655,302</u>	<u>4,466,264</u>
Fund balances end of year	<u>\$ 2,398,435</u>	<u>897,650</u>	<u>818,858</u>	<u>606,134</u>	<u>4,721,077</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Change in fund balances - total governmental funds(page 22) \$ 254,813

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. Expenditures for capital outlays and depreciation expense for the year is as follows:

Capital outlay	\$ 550,667	
Depreciation expense	<u>(684,918)</u>	(134,251)

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	410,000
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Income surtax receivable is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds.	71,553
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Net change in Internal Service Funds charged back against expenditures made for self-funded insurance on an entity-wide basis.	(309,895)
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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, as follows:

Termination benefits	(136,588)	
Other postemployment benefits	<u>(102,247)</u>	<u>(238,835)</u>

Change in net position of governmental activities(page 19) \$ 53,385

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School	Preschool	Total	Self-Funded	Flex	Total
	Nutrition			Insurance	Benefit	
Assets						
Current assets:						
Cash and pooled investments	\$ 49,253	14,137	63,390	1,352,468	39,297	1,391,765
Accounts receivable	18,348	1,230	19,578	-	-	-
Due from other governments	1,659	-	1,659	-	-	-
Inventories	18,960	-	18,960	-	-	-
	<u>88,220</u>	<u>15,367</u>	<u>103,587</u>	<u>1,352,468</u>	<u>39,297</u>	<u>1,391,765</u>
Noncurrent assets:						
Capital assets, net of accumulated depreciation	65,093	-	65,093	-	-	-
Total assets	<u>153,313</u>	<u>15,367</u>	<u>168,680</u>	<u>1,352,468</u>	<u>39,297</u>	<u>1,391,765</u>
Liabilities						
Current liabilities:						
Accounts payable	1,186	-	1,186	-	-	-
Salaries and benefits payable	1,927	-	1,927	-	-	-
Incurred but not reported	-	-	-	290,000	-	290,000
	<u>3,113</u>	<u>-</u>	<u>3,113</u>	<u>290,000</u>	<u>-</u>	<u>290,000</u>
Noncurrent liabilities:						
Net OPEB liability	15,301	4,259	19,560	-	-	-
Total liabilities	<u>18,414</u>	<u>4,259</u>	<u>22,673</u>	<u>290,000</u>	<u>-</u>	<u>290,000</u>
Net Position						
Net investment in capital assets	65,093	-	65,093	-	-	-
Unrestricted	69,806	11,108	80,914	1,062,468	39,297	1,101,765
Total net position	<u>\$ 134,899</u>	<u>11,108</u>	<u>146,007</u>	<u>1,062,468</u>	<u>39,297</u>	<u>1,101,765</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School		Total	Self-Funded	Flex	Total
	Nutrition			Preschool	Insurance	
OPERATING REVENUES:						
Local sources:						
Charges for service	\$ 332,664	-	332,664	-	-	-
Miscellaneous	3,342	16,107	19,449	2,067,615	76,633	2,144,248
TOTAL OPERATING REVENUES	336,006	16,107	352,113	2,067,615	76,633	2,144,248
OPERATING EXPENSES:						
Instructional:						
Other:						
Salaries	-	4,251	4,251	-	-	-
Benefits	-	1,705	1,705	-	-	-
Supplies	-	1,028	1,028	-	-	-
	-	6,984	6,984	-	-	-
Support services:						
Administration:						
Benefits	-	-	-	1,994,902	-	1,994,902
Services	425	-	425	386,069	73,709	459,778
Operation and maintenance of plant:						
Services	7,249	-	7,249	-	-	-
	7,674	-	7,674	2,380,971	73,709	2,454,680
Non-instructional programs:						
Food service operations:						
Salaries	194,784	-	194,784	-	-	-
Benefits	81,159	-	81,159	-	-	-
Services	415	-	415	-	-	-
Supplies	372,062	-	372,062	-	-	-
Depreciation	9,125	-	9,125	-	-	-
Other	605	-	605	-	-	-
	658,150	-	658,150	-	-	-
TOTAL OPERATING EXPENSES	665,824	6,984	672,808	2,380,971	73,709	2,454,680
OPERATING INCOME(LOSS)	(329,818)	9,123	(320,695)	(313,356)	2,924	(310,432)
NON-OPERATING REVENUES:						
Interest	-	-	-	534	3	537
State sources	6,453	6,124	12,577	-	-	-
Federal sources	344,445	-	344,445	-	-	-
TOTAL NON-OPERATING REVENUES	350,898	6,124	357,022	534	3	537
Net increase(decrease) in net position before other financing sources	21,080	15,247	36,327	(312,822)	2,927	(309,895)
OTHER FINANCING SOURCES:						
Transfer in	-	69,856	69,856	-	-	-
Change in net position	21,080	85,103	106,183	(312,822)	2,927	(309,895)
Net position beginning of year	113,819	(73,995)	39,824	1,375,290	36,370	1,411,660
Net position end of year	\$ 134,899	11,108	146,007	1,062,468	39,297	1,101,765

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities:			Governmental Activities		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
Cash flows from operating activities:						
Cash received from sale of lunches and breakfasts	\$ 336,889	-	336,889	-	-	-
Cash received from miscellaneous operating activities	3,342	18,724	22,066	2,067,615	76,633	2,144,248
Cash payments to employees for services	(272,319)	(5,096)	(277,415)	(1,949,902)	-	(1,949,902)
Cash payments to suppliers for goods or services	(321,529)	(1,028)	(322,557)	(386,069)	(73,709)	(459,778)
Net cash provided by(used in) operating activities	(253,617)	12,600	(241,017)	(268,356)	2,924	(265,432)
Cash flows from non-capital financing activities:						
Transfer from General Fund	-	69,856	69,856	-	-	-
State grants received	6,453	6,124	12,577	-	-	-
Federal grants received	284,264	-	284,264	-	-	-
Net cash provided by non-capital financing activities	290,717	75,980	366,697	-	-	-
Cash flows from investing activities:						
Interest on investments	-	-	-	534	3	537
Cash flows from capital financing activities:						
Purchase of assets	(8,307)	-	(8,307)	-	-	-
Net increase(decrease) in cash and cash equivalents	28,793	88,580	117,373	(267,822)	2,927	(264,895)
Cash and cash equivalents beginning of year	20,460	(74,443)	(53,983)	1,620,290	36,370	1,656,660
Cash and cash equivalents end of year	\$ 49,253	14,137	63,390	1,352,468	39,297	1,391,765
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:						
Operating income(loss)	\$ (329,818)	9,123	(320,695)	(313,356)	2,924	(310,432)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:						
Commodities consumed	58,522	-	58,522	-	-	-
Depreciation	9,125	-	9,125	-	-	-
Decrease in inventories	119	-	119	-	-	-
Decrease in accounts receivable	4,225	2,617	6,842	-	-	-
Increase in accounts payable	586	-	586	-	-	-
Increase in salaries and benefits payable	533	-	533	-	-	-
Increase in incurred but not reported	-	-	-	45,000	-	45,000
Increase in other postemployment benefits payable	3,091	860	3,951	-	-	-
Net cash provided by(used in) operating activities	\$ (253,617)	12,600	(241,017)	(268,356)	2,924	(265,432)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2014, the District received \$58,522 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITES
FIDUCIARY FUND
JUNE 30, 2014

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 7,321
Liabilities	
Due to other groups	\$ 7,321

SEE NOTES TO FINANCIAL STATEMENTS.

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

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Algona 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.

These financial statements present Algona Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Algona Community School Foundation was created to financially support the Algona Community School system and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. 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 component unit in these financial statements with the year ending December 31, 2013.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

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

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise, Preschool Fund, the Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for preschool operations of the District. The Internal Service, Self-Funded Insurance Fund is used to account for the District's self-funded health insurance plan. The Internal Service, Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by 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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

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 measureable and available only when cash is received by the District.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
Intangibles	75,000
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

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

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

Deferred Inflows of Resources - Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources 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.

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

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

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

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

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

Unassigned - All amounts not included in preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014 expenditures in the other expenditures functional area exceeded the budgeted amounts.

Note 2. Cash and Pooled Investments

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

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$4,772 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard and Poor's Financial Services.

Note 3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 787,273
Enterprise: Preschool Total	General	<u>69,856</u> <u>\$ 857,129</u>

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

The transfer from the General Fund to the Enterprise: Preschool Fund was to correct expenses paid from the wrong fund in prior years.

Note 4. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 87,674	-	-	87,674
Total capital assets not being depreciated	<u>87,674</u>	<u>-</u>	<u>-</u>	<u>87,674</u>
Capital assets being depreciated:				
Buildings	18,977,329	288,433	-	19,265,762
Land improvements	830,559	8,938	-	839,497
Machinery and equipment	4,092,090	253,296	42,500	4,302,886
Total capital assets being depreciated	<u>23,899,978</u>	<u>550,667</u>	<u>42,500</u>	<u>24,408,145</u>
Less accumulated depreciation for:				
Buildings	7,539,043	486,877	-	8,025,920
Land improvements	618,044	24,543	-	642,587
Machinery and equipment	3,303,854	173,498	42,500	3,434,852
Total accumulated depreciation	<u>11,460,941</u>	<u>684,918</u>	<u>42,500</u>	<u>12,103,359</u>
Total capital assets being depreciated, net	<u>12,439,037</u>	<u>(134,251)</u>	<u>-</u>	<u>12,304,786</u>
Governmental activities capital assets, net	<u>\$ 12,526,711</u>	<u>(134,251)</u>	<u>-</u>	<u>12,392,460</u>
Business type activities:				
Machinery and equipment	\$ 154,217	8,307	-	162,524
Less accumulated depreciation	88,306	9,125	-	97,431
Business type activities capital assets, net	<u>\$ 65,911</u>	<u>(818)</u>	<u>-</u>	<u>65,093</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 32,892
Other		19,183
Support services:		
Administration		7,091
Operation and maintenance of plant		21,335
Transportation		92,997
		<u>173,498</u>
Unallocated depreciation		<u>511,420</u>
		<u>\$ 684,918</u>
Business type activities:		
Food services operations		<u>\$ 9,125</u>

Note 5. Long-Term Debt

Changes in long-term liabilities for the year ended June 30, 2014 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 8,050,000	-	410,000	7,640,000	420,000
Termination benefits	60,000	160,000	23,412	196,588	74,650
Net OPEB liability	403,995	102,247	-	506,242	-
Total	<u>\$ 8,513,995</u>	<u>262,247</u>	<u>433,412</u>	<u>8,342,830</u>	<u>494,650</u>
Business type activities:					
Net OPEB liability	\$ 15,609	3,951	-	19,560	-

Revenue Bonds

Details of the District's June 30, 2014 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 28, 2009			
	Interest Rate	Principal	Interest	Total
2015	4.00%	\$ 420,000	324,383	744,383
2016	4.00	430,000	314,320	744,320
2017	4.00	435,000	342,628	777,628
2018	4.20	445,000	325,428	770,428
2019	4.38	460,000	308,028	768,028
2020-2024	4.50-5.00	2,500,000	1,131,623	3,631,623
2025-2029	5.00-5.20	2,950,000	465,031	3,415,031
Total		<u>\$ 7,640,000</u>	<u>3,211,441</u>	<u>10,851,441</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,645,000 bonds issued July 28, 2009. The bonds were issued for the purpose of defraying a portion of the cost of construction for the new Middle School for the District. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on bonds are expected to require approximately 71 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$10,851,441. For the current year \$410,000 of principal and \$375,828 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,044,117.

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

- a) \$818,828 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Termination Benefits(Early Retirement)

The District offered a voluntary early retirement plan to its employees during the fiscal years 2013 and 2014. Eligible employees had to be a full-time teacher or administrator that reached age 55 before June 30th of the year of retirement. Eligible employees must have completed fifteen years of continuous service to the District. Employees had to complete an application which was required to be approved by the Board of Education.

The early retirement benefits were \$20,000 per retiree. The policy requires early retirement benefits be applied to the retirees' health insurance premiums until exhausted.

As of June 30, 2014 the District has obligations to eleven participants with a total liability of \$196,588. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$23,412.

Note 6. 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 197 active and 9 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

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

Annual required contribution	\$ 177,526
Interest on net OPEB obligation	10,490
Adjustment to annual required contribution	<u>(32,893)</u>
Annual OPEB cost	155,123
Contributions made	<u>(48,925)</u>
Increase in net OPEB obligation	106,198
Net OPEB obligation beginning of year	419,604
Net OPEB obligation end of year	<u><u>\$ 525,802</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014. For the year ended June 30, 2014, the District contributed \$48,925 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2014 is summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 228,365	29.48%	\$ 285,535
2013	190,326	29.56	419,604
2014	155,123	31.54	525,802

Funded Status and Funding Progress - As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1,457,765 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,457,765. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,390,132 and the ratio of the UAAL to covered payroll was 17.4%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the 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 for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2013 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 6.0%.

Mortality rates are from the Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

The UAAL is being amortized as a level percentage of the projected payroll expense on an open basis over 30 years.

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual salary and the District is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$778,271, \$737,606 and \$679,688, respectively, equal to the required contributions for each year.

Note 8. Risk Management

Algona Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$543,408 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2014, the District exceeded its budgeted amounts in the other expenditures functional area.

Note 11. Subsequent Event

On February 5, 2013, the Titonka Consolidated School District and the Algona Community School District held a public meeting for consolidation of the two districts. Residents of the Titonka Consolidated School District passed the resolution to merge with Algona Community School District on a 79.9% vote. Residents of the Algona Community School District passed a resolution to merge with Titonka Consolidated School District on a 95% vote. On July 1, 2014, the two Districts were officially consolidated.

Note 12. Deficit Fund Balances/Net Position

The District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund of \$9,211 consisting of eight Student Activity accounts carrying deficit balances at June 30, 2014.

Note 13. Categorical Funding

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

<u>Programs</u>	<u>Amount</u>
Limited english proficient	\$ 640
Gifted and talented programs	124,263
Returning dropouts and dropout prevention programs	184,423
Four-year-old preschool state aid	495,808
Successful progression for early readers	9,216
Textbook aid for nonpublic students	2,329
Professional development for model core curriculum	61,656
Professional development	4,727
Market factor incentives	8,697
Teacher leadership grants	9,449
Total	<u>\$ 901,208</u>

Note 14. Reconciliation of Governmental Fund Balances to Net Position

Reconciliation of certain governmental fund balances to net position are as follows:

	<u>Net Investment in Capital Assets</u>	<u>Management Levy</u>	<u>Unassigned/ Unrestricted</u>
Fund balance (Exhibit C)	\$ -	421,663	1,497,227
Invested in capital assets, net of accumulated depreciation	12,392,460	-	-
Revenue bond capitalized indebtedness	(7,640,000)	-	-
Accrued interest payable	-	-	-
Termination benefits	-	(196,588)	-
Internal service fund	-	-	1,101,765
Income surtax	-	-	617,976
Unassigned for student activities	-	-	(9,211)
Net OPEB liability	-	-	(506,242)
Net position (Exhibit A)	<u>\$ 4,752,460</u>	<u>\$ 225,075</u>	<u>\$ 2,701,515</u>

Note 15. Prospective Accounting Change

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

Required Supplementary Information

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

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 9,071,726	352,113	9,423,839	10,090,733	10,090,733	(666,894)
Intermediate sources	-	-	-	10,000	10,000	(10,000)
State sources	7,829,059	12,577	7,841,636	6,466,344	6,466,344	1,375,292
Federal sources	298,223	344,445	642,668	671,000	671,000	(28,332)
Total revenues	17,199,008	709,135	17,908,143	17,238,077	17,238,077	670,066
Expenditures/expenses:						
Instruction	11,041,462	6,984	11,048,446	11,220,000	11,220,000	171,554
Support services	4,173,828	7,674	4,181,502	4,439,000	4,439,000	257,498
Non-instructional programs	-	658,150	658,150	600,000	700,000	41,850
Other expenditures	1,662,171	-	1,662,171	1,367,851	1,367,851	(294,320)
Total expenditures/expenses	16,877,461	672,808	17,550,269	17,626,851	17,726,851	176,582
Excess(Deficiency) of revenues over(under) expenditures/expenses	321,547	36,327	357,874	(388,774)	(488,774)	846,648
Other financing sources(uses), net	(66,734)	69,856	3,122	34,000	34,000	(30,878)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	254,813	106,183	360,996	(354,774)	(454,774)	815,770
Balances beginning of year	4,466,264	39,824	4,506,088	4,507,297	4,507,297	(1,209)
Balances end of year	\$ 4,721,077	146,007	4,867,084	4,152,523	4,052,523	814,561

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment, increasing budgeted expenditures in the non-instructional programs functional area by \$100,000.

During the year ended June 30, 2014, the expenditures in the other expenditures functional area exceeded the amounts budgeted.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 1,360,117	1,360,117	0.0%	\$ 6,971,296	19.5%
2010	July 1, 2008	-	1,360,117	1,360,117	0.0	6,545,082	20.8
2011	July 1, 2008	-	1,360,117	1,360,117	0.0	7,837,500	17.4
2012	July 1, 2011	-	1,611,343	1,611,343	0.0	8,312,448	19.4
2013	July 1, 2011	-	1,550,869	1,550,869	0.0	8,421,367	18.4
2014	July 1, 2013	-	1,457,765	1,457,765	0.0	8,390,132	17.4

See Note 6 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF ASSETS, LIABILITIES AND NET POSITION - CASH BASIS
 COMPONENT UNIT
 DECEMBER 31, 2013

	Algona Community School Foundation
Assets	
Cash and pooled investments	\$ 4,482,555
Liabilities	-
Net Position	
Restricted for:	
Scholarships/District support	4,108,872
Unrestricted	373,683
Total net position	\$ 4,482,555

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF SUPPORT AND REVENUES, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2013

	Algona Community School Foundation
Revenues:	
Related organizations	\$ 2,732
Contributions, gifts, grants and similar amounts	330,943
Interest and dividends	128,620
Realized gain on investments	317,952
Unrealized gains on investments	390,751
Total revenue	1,170,998
Expenses:	
Grants/Scholarships	239,382
Management	6,980
Accounting	4,800
Investment management fees	21,458
Advertising and promotion	235
Insurance	226
Fundraising supplies	3,856
Postage and shipping	860
Foreign tax on dividends	73
Total expenses	277,870
Excess of revenues over expenses	893,128
Net position beginning of year	3,589,427
Net position end of year	\$ 4,482,555

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

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

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 418,630	190,564	609,194
Receivables:			
Property tax:			
Delinquent	3,033	-	3,033
Total assets	\$ 421,663	190,564	612,227
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ -	6,093	6,093
Deferred inflows of resources	-	-	-
Fund balances:			
Restricted for:			
Management levy purposes	421,663	-	421,663
Student activities	-	193,682	193,682
Unassigned:			
Student activities	-	(9,211)	(9,211)
Total fund balances	421,663	184,471	606,134
Total liabilities, deferred inflows of resources and fund balances	\$ 421,663	190,564	612,227

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		
	Management Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 300,614	-	300,614
Other	10,222	433,087	443,309
TOTAL REVENUES	310,836	433,087	743,923
EXPENDITURES:			
Current:			
Instruction:			
Regular	129,614	-	129,614
Other	-	435,821	435,821
Support services:			
Operation and maintenance of plant	227,656	-	227,656
TOTAL EXPENDITURES	357,270	435,821	793,091
Change in fund balances	(46,434)	(2,734)	(49,168)
Fund balances beginning of year	468,097	187,205	655,302
Fund balances end of year	\$ 421,663	184,471	606,134

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 505,452	332,151	837,603
Receivables:			
Delinquent	-	5,546	5,546
Due from other governments	164,936	-	164,936
Total assets	\$ 670,388	337,697	1,008,085
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities:			
Accounts payable	\$ 100,435	-	100,435
Retainage payable	10,000	-	10,000
Total liabilities	110,435	-	110,435
Deferred inflows of resources	-	-	-
Fund balances:			
Restricted for:			
School infrastructure	559,953	-	559,953
Physical plant and equipment	-	337,697	337,697
Total fund balances	559,953	337,697	897,650
Total liabilities, deferred inflows of resources and fund balances	\$ 670,388	337,697	1,008,085

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenues:			
Local sources:			
Local tax	\$ -	550,270	550,270
Other	349	104,763	105,112
State sources	1,044,117	-	1,044,117
Total revenues	1,044,466	655,033	1,699,499
Expenditures:			
Current:			
Support services:			
Instructional staff	-	59,627	59,627
Operation and maintenance of plant	-	52,942	52,942
Transportation	-	194,904	194,904
Capital outlay	233,549	98,633	332,182
Total expenditures	233,549	406,106	639,655
Excess of revenues over expenditures	810,917	248,927	1,059,844
Other financing uses:			
Transfer out	(787,273)	-	(787,273)
Change in fund balances	23,644	248,927	272,571
Fund balances beginning of year	536,309	88,770	625,079
Fund balances end of year	\$ 559,953	337,697	897,650

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (4,037)	57,827	57,419	(3,629)
Concession equipment	(1,324)	1,200	1,914	(2,038)
Public broadcasting	612	20	440	192
Special advertising	33,618	16,235	20,703	29,150
MS boys baseball	2,022	-	171	1,851
MS-vocal music	(57)	-	-	(57)
MS-instrumental music	(2,727)	20,888	16,804	1,357
MS-vocal/band uniforms	1,240	506	-	1,746
MS-cheerleaders	-	472	-	472
MS-quiz bowl	1,176	480	1,656	-
MS-science fair	512	1,064	1,244	332
MS-student senate	2,188	913	2,686	415
MS-yearbook	239	2,543	936	1,846
HS drama/speech	6,886	17,207	21,529	2,564
HS-vocal music	13,008	15,371	17,652	10,727
HS-instrumental music	9,546	20,024	22,446	7,124
HS-vocal/band uniforms	(1,638)	1,244	541	(935)
HS swing choir & band	1,449	942	-	2,391
HS band tour	879	5,581	4,701	1,759
HS vocal tour	370	606	575	401
HS athletics general	42,350	8,517	30,275	20,592
HS cross country	-	5,107	5,037	70
HS boys basketball	-	7,110	6,990	120
HS boys football	-	14,087	10,616	3,471
HS baseball	(2,022)	7,445	7,320	(1,897)
HS boys track	-	3,526	3,526	-
HS boys golf	-	1,754	1,754	-
HS wrestling	279	5,751	3,891	2,139
HS girls basketball	-	6,521	6,521	-
HS volleyball	-	7,399	4,963	2,436
HS softball	-	3,897	3,953	(56)
HS girls track	-	2,909	2,909	-
HS girls golf	(35)	1,752	1,717	-
HS projects	(732)	743	-	11
HS-ACT-ELC	3,449	-	3,449	-
TNT	371	-	-	371
HS cheerleaders	2,203	7,004	6,571	2,636
Class of 2014	304	-	304	-
Class of 2015	1,904	4,390	5,247	1,047
Class of 2016	824	2,024	3,035	(187)
Class of 2017	288	-	-	288
HS drill team	1,020	16,679	14,564	3,135
FFA	28,218	83,568	79,841	31,945

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 5

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Construction club	139	-	-	139
Env. science	2,064	-	-	2,064
Hosa	410	634	-	1,044
Special Olympics	1,994	965	930	2,029
HS mock trial/ACAD	350	2,469	3,231	(412)
Model UN	686	1,449	1,613	522
National honor society	274	2,798	2,886	186
Outdoor club	568	635	254	949
P.E. club	8,185	-	-	8,185
Peer helpers	1,342	-	-	1,342
Prom improvement	411	1,168	380	1,199
HS quiz bowl	50	4,045	4,045	50
HS spanish club	1,555	-	1,555	-
HS student senate	2,134	2,702	1,948	2,888
TV. productions	2,426	2,279	300	4,405
Weight lifting club	79	-	-	79
HS yearbook	9,190	16,794	15,347	10,637
HS special cross country	194	658	795	57
HS special swim team	3,930	1,944	1,494	4,380
HS special boys basketball	2,415	4,301	3,497	3,219
HS special football	(2,297)	11,769	4,318	5,154
HS special baseball	(414)	7,723	5,637	1,672
HS special boys track	1,087	3,281	1,547	2,821
HS special boys golf	1,701	549	413	1,837
HS special wrestling	770	3,332	3,597	505
HS special girls basketball	1,997	4,846	5,382	1,461
HS special volleyball	1,678	1,782	1,756	1,704
HS special softball	895	1,989	339	2,545
HS special girls track	573	1,295	465	1,403
HS special girls golf	436	374	192	618
Total	<u>\$ 187,205</u>	<u>433,087</u>	<u>435,821</u>	<u>184,471</u>

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITES
AGENCY FUND
YEAR ENDED JUNE 30, 2014

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Assets				
Cash and pooled investments	\$ 2,991	21,425	17,095	7,321
Liabilities				
Due to other groups	\$ 2,991	21,425	17,095	7,321

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 6,639,488	7,985,704	7,731,795	7,579,132	6,968,941	6,592,594	5,497,239	5,469,034	5,614,630	5,742,171
Tuition	1,607,938	1,423,130	1,469,617	1,290,813	1,267,199	1,296,138	1,404,416	1,262,663	1,247,756	1,112,659
Other	824,300	733,805	738,510	817,267	739,104	746,318	771,663	734,547	720,612	649,007
Intermediate sources	-	-	-	-	-	-	1,050	1,050	1,050	-
State sources	7,829,059	6,652,216	6,439,232	6,161,284	5,157,985	5,913,874	5,632,742	5,375,888	5,447,395	5,285,230
Federal sources	298,223	302,441	503,745	535,527	1,341,271	297,727	314,753	370,835	487,067	676,384
Total	\$ 17,199,008	17,097,296	16,882,899	16,384,023	15,474,500	14,846,651	13,621,863	13,214,017	13,518,510	13,465,451
Expenditures:										
Instruction:										
Regular	\$ 5,870,172	5,868,364	5,574,565	5,207,081	4,823,820	4,831,081	5,263,175	5,608,779	4,965,295	4,920,243
Special	2,997,057	2,941,913	2,907,082	2,875,963	2,912,652	2,825,044	2,758,170	2,519,046	2,531,517	2,610,995
Other	2,174,233	2,038,545	2,180,516	2,354,773	2,191,078	1,888,804	1,776,378	1,376,050	1,591,941	1,526,829
Support services:										
Student	265,572	320,425	279,648	292,976	291,112	103,162	335,840	318,336	298,708	294,861
Instructional staff	268,468	456,249	288,856	384,501	249,453	283,131	209,754	221,585	317,399	207,896
Administration	1,126,466	1,115,629	1,088,775	987,512	995,206	1,026,874	1,214,120	1,106,860	1,167,238	1,092,163
Operation and maintenance of plant	1,787,537	1,816,259	1,510,389	2,057,503	1,264,561	1,356,167	1,186,106	1,220,355	1,282,805	1,043,524
Transportation	725,785	497,688	490,577	674,073	495,754	437,541	658,449	484,594	605,476	482,887
Capital outlay	332,182	191,766	22,500	3,614,761	6,211,994	561,541	93,584	459,868	737,059	416,316
Long-term debt:										
Principal	410,000	405,000	795,000	395,000	-	-	-	-	-	-
Interest and fiscal charges	376,581	393,528	622,191	433,227	188,092	-	-	-	-	-
Other expenditures:										
AEA flowthrough	543,408	530,866	520,901	577,797	555,416	492,441	465,680	450,954	434,384	430,727
Total	\$ 16,877,461	16,576,232	16,281,000	19,855,167	20,179,138	13,805,786	13,961,256	13,766,427	13,931,822	13,026,441

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 14	\$ 50,262
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 14	291,748 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 14	1,235
			<u>343,245</u>
TEAM NUTRITION GRANTS	10.574	FY 14	<u>1,200</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	<u>140,668</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 14	<u>59,154</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 14	<u>7,348</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 14	<u>70,116</u>
ADVANCED PLACEMENT PROGRAM	84.330	FY 14	<u>162</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS	93.938	FY 14	<u>170</u>
TOTAL			<u>\$ 622,063</u>

* -Includes \$58,522 in non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

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

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Algona 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 Algona Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control.

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

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

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-14 to be a significant deficiency.

Compliance and Other Matters

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

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

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

Algona Community School District's Responses to Findings

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

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Algona 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, 2015
Newton, Iowa

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

To the Board of Education of Algona Community School District:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Algona Community School

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

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-14 to be a material weakness.

Algona Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Algona Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2015
Newton, Iowa

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

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) Material weaknesses and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Program:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-14 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted incompatible duties over each of the following areas:

- 1) Cash - initiating disbursement transactions, access to blank check stock, generate and print checks, executes wire transfers and performing reconciliations.
- 2) Receipts - collecting, recording and posting.
- 3) Journal Entries - writing and posting.
- 4) School Lunch Program - journalizing, posting, reconciling, 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 - We will continue to investigate alternatives to achieve adequate segregation of duties.

Conclusion - Response accepted.

- II-B-14 Capital Assets - During our audit, we had to make material adjustments to the District's capital asset listing. It appears that the District does not have adequate procedures to accurately account for additions and deletions of capital assets. The District's Board Policy 804.5 states "The capital assets management system must be updated monthly to account for the addition/acquisition, disposal, relocation/transfer of capital assets. It is the responsibility of the superintendent to count and reconcile the capital assets with capital assets management system on June 30 each year."

Recommendation - Capital assets should be periodically reconciled to the accounting records by an individual having no responsibility for the assets. Identification tags should be placed on all capital assets. The District should adopt procedures to ensure capital assets are accounted for according to Board Policy 804.5.

Response - We will be more diligent in the acquisition, disposal and relocation of capital assets.

Conclusion - Response accepted.

- II-C-14 Supporting Documentation for Credit Card Purchases - During our audit we noted several instances of purchases on the District credit card that lacked an invoice or detailed receipt to be used as supporting documentation beyond the credit card statement.

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

Response - We will make every effort to provide a receipt for every credit card purchase.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.559 - Summer Food Service Program for Children
Federal Award Year: 2014
U.S. Department of Agriculture
Passed through the Iowa Department of Education

III-A-14 Segregation of Duties - One important aspect of internal accounting control is the (2014-001) segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted incompatible duties over each of the following areas:

- 1) Cash - initiating disbursement transactions, access to blank check stock, generate and print checks, executes wire transfers and performing reconciliations.
- 2) Receipts - collecting, recording and posting.
- 3) Journal Entries - writing and posting.
- 4) School Lunch Program - 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 - We will continue to investigate alternatives to achieve adequate segregation of duties.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-14 Certified Budget - Expenditures for the year ended June 30, 2014 exceeded the certified budgeted amounts in the other expenditures functional area.

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

Response - We will amend the budget before we exceed the certified amount.

Conclusion - Response accepted.

IV-B-14 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-14 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Shelly TerHark, Teacher Spouse officiates	Officiating	\$ 40

Sandi Rodemeyer, Teacher Spouse officiates	Officiating	605
Marilyn Gale, Teacher Spouse owns J. Gale Photography	Board Pictures	61
Jay Limbaugh, Board Member Father owns Jack's OK Tires	Tire purchases	4,983
Rodney Davis, Board Member Winter sports duty	Score keeper	718

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

In accordance with the Chapter 279.7A of the Code of Iowa, the above transaction with board member Rodney Davis does not appear to represent a conflict of interest.

- IV-E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-14 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-14 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted
- IV-J-14 Certified Annual Report - The Certified Annual Report was filed with the Iowa Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-14 Financial Condition - At June 30, 2014, the District had a deficit unassigned fund balance in the Special Revenue: Student Activity Fund consisting of eight deficit accounts totaling \$9,211.

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

Response - The accounts are being monitored and we are working towards a positive balance.

Conclusion - Response accepted.

IV-M-14 Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2014, the following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit:

Beginning balance		\$ 536,309
Revenues:		
Sales tax revenues	\$ 1,044,117	
Other local revenues	349	1,044,466
		<u>1,580,775</u>
Expenditures/transfers out:		
School infrastructure	\$ 233,549	
Transfers to other funds:		
Debt service fund	787,273	1,020,822
		<u>1,020,822</u>
Ending balance		<u>\$ 559,953</u>

For the year ended June 30, 2014 the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

IV-N-14 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. 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 comply with Chapter 291.1 of the Code of Iowa.

Response - The Board President will sign all officiating contracts or give authorization for his signature stamp to be used.

Conclusion - Response accepted.

II-O-14 District and Regional Rents - We noted during our audit that the District receives money for use of facilities when hosting district and regional events. The District currently receipts this revenue into the Student Activity Fund.

Recommendation - Chapter 297.10 of the Code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage from hosting district and regional events into the General Fund.

Response - We will deposit money received for hosting regional events into the General Fund for facility usage.

Conclusion - Response accepted.