

AR-WE-VA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-16
Basic Financial Statements:	<u>Exhibit</u>	
<i>Government-wide Financial Statements:</i>		
Statement of Net Position	A	18
Statement of Activities	B	19
<i>Governmental Fund Financial Statements:</i>		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
<i>Proprietary Fund Financial Statements:</i>		
Statement of Net Position	G	24
Statement of Revenues, Expenses and Changes in Fund Net Position	H	25
Statement of Cash Flows	I	26
Notes to Basic Financial Statements		27-37
<i>Required Supplementary Information:</i>		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		40
Notes to Required Supplementary Information - Budgetary Reporting		41
Schedule of Funding Progress for the Retiree Health Plan		42
<i>Supplementary Information:</i>		
<i>Non-major Governmental Funds:</i>		
Combining Balance Sheet	1	44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	45
<i>Capital Project Accounts:</i>		
Combining Balance Sheet	3	46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	49
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 <u>Government Auditing Standards</u>		50-51
Schedule of Findings		52-59

Ar-We-Va Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2013 Election)		
Todd Danner	President	2015
Bryan Dalton	Vice President	2013
Sara Skinner	Board Member	2013
Denise Ragaller	Board Member	2015
Jeremy Smith	Board Member	2015
(After September 2013 Election)		
Todd Danner	President	2015
Bryan Dalton	Vice President	2017
Sara Skinner	Board Member	2017
Denise Ragaller	Board Member	2015
Jeremy Smith	Board Member	2015
School Officials		
Kurt Brosamle	Superintendent	2014
Sharon Stickrod	Board Secretary/ District Treasurer	2014
Rick Franck	Attorney	2014

AR-WE-VA COMMUNITY SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Ar-We-Va Community School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ar-We-Va 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 year ended June 30, 2013 and expressed an unmodified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2015 on our consideration of Ar-We-Va Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Ar-We-Va Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

January 22, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ar-We-Va 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 \$3,463,539 in fiscal 2013 to \$3,379,508 in fiscal 2014, and General Fund expenditures decreased from \$3,435,509 in fiscal 2013 to \$3,391,954 in fiscal 2014. The District's General Fund balance decreased from \$1,310,260 at June 30, 2013 to a balance of \$1,297,814 at June 30, 2014, a 0.95% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax revenues in fiscal 2014. The decrease in expenditures was due primarily to a decrease in the instruction functional area.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Ar-We-Va 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 Ar-We-Va 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 Ar-We-Va 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.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

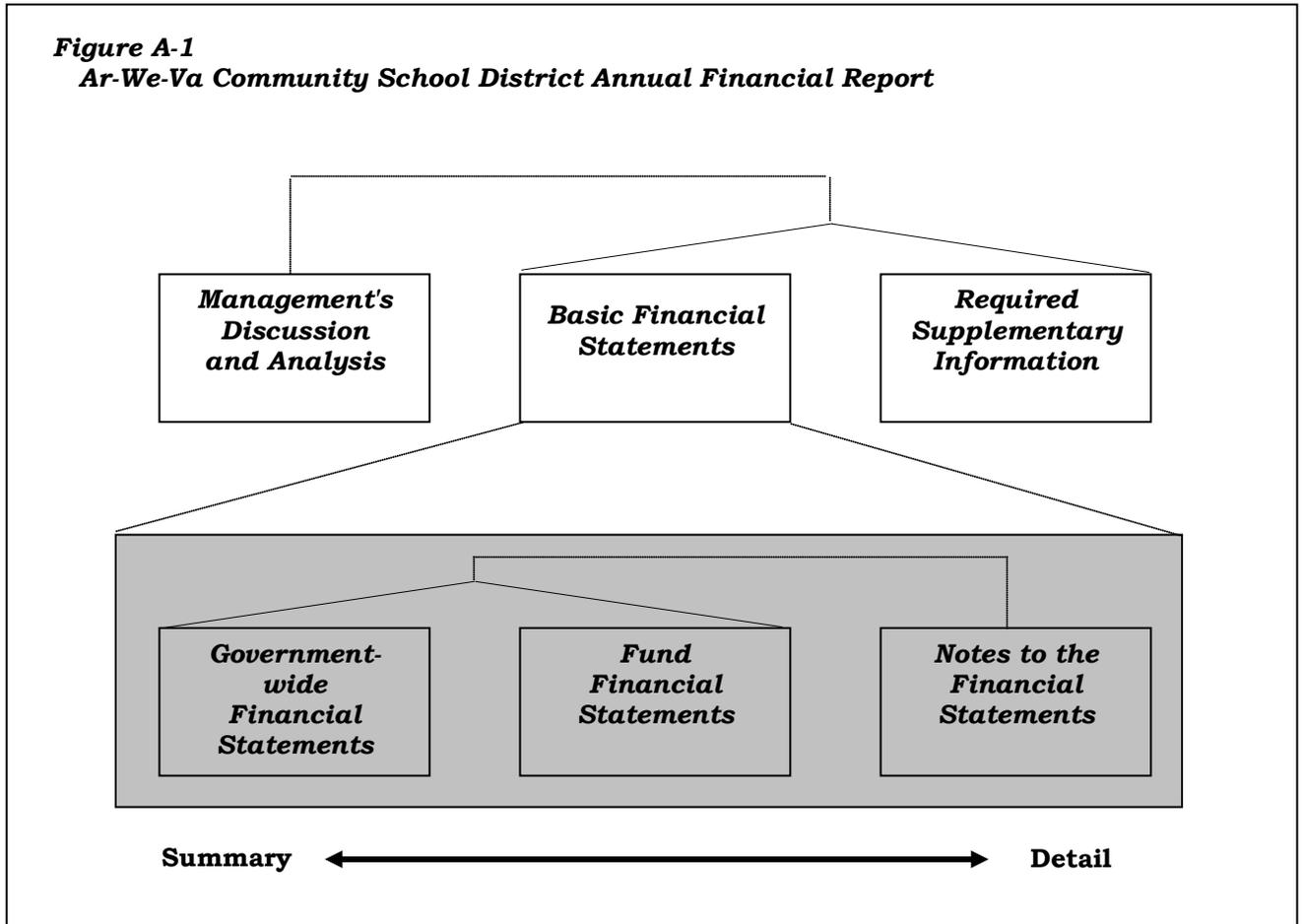


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District’s net position and how they have changed. Net position is one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net position 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 two categories:

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 5,942,779	5,801,761	61,205	31,007	6,003,984	5,832,768	2.94%
Capital assets	3,959,940	4,018,574	6,799	6,523	3,966,739	4,025,097	-1.45%
Total assets	9,902,719	9,820,335	68,004	37,530	9,970,723	9,857,865	1.14%
Long-term obligations	2,720,651	2,970,376	-	-	2,720,651	2,970,376	-8.41%
Other liabilities	319,140	384,578	7,577	1,571	326,717	386,149	-15.39%
Total liabilities	3,039,791	3,354,954	7,577	1,571	3,047,368	3,356,525	-9.21%
Deferred inflows of resources	2,264,368	2,440,653	-	-	2,264,368	2,440,653	-7.22%
Net position:							
Net Investment in capital assets	1,289,940	1,108,574	6,799	6,523	1,296,739	1,115,097	16.29%
Restricted	2,039,251	1,584,042	-	-	2,039,251	1,584,042	28.74%
Unrestricted	1,269,369	1,332,112	53,628	29,436	1,322,997	1,361,548	-2.83%
Total net position	\$ 4,598,560	4,024,728	60,427	35,959	4,658,987	4,060,687	14.73%

The District's combined net position increased by \$598,300 or by 14.73%, over the prior year. A large portion of the District's net position is invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$455,209, or 28.74% over the prior year. The increase is primarily due to the increase in fund balance of the Management Levy Fund and Capital Projects Fund.

Unrestricted net position is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$38,551, or 2.83%. This decrease in unrestricted net position was primarily a result of the decrease in fund balance in the General Fund.

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

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for service	\$ 112,525	123,755	72,435	71,051	184,960	194,806	-5.05%
Operating grants, contributions and restricted interest	295,375	312,004	60,576	52,777	355,951	364,781	-2.42%
Capital grants, contributions, and restricted interest	17,446	52,383	-	-	17,446	52,383	100.00%
General revenues:							
Property tax	2,436,999	2,530,597	-	-	2,436,999	2,530,597	-3.70%
Income surtax	194,060	149,715	-	-	194,060	149,715	29.62%
Statewide sales, services and use tax	261,604	248,662	-	-	261,604	248,662	5.20%
Unrestricted state grants	995,479	866,946	-	-	995,479	866,946	14.83%
Unrestricted investment earnings	8,639	9,244	73	561	8,712	9,805	-11.15%
Other	23,321	29,557	159	-	23,480	29,557	-20.56%
Total revenues	4,345,448	4,322,863	133,243	124,389	4,478,691	4,447,252	0.71%
Program expenses:							
Instructional	2,540,484	2,693,757	-	-	2,540,484	2,693,757	-5.69%
Support services	898,266	886,441	-	-	898,266	886,441	1.33%
Non-instructional programs	9,236	15,335	108,775	110,126	118,011	125,461	-5.94%
Other expenditures	323,630	347,945	-	-	323,630	347,945	-6.99%
Total expenses	3,771,616	3,943,478	108,775	110,126	3,880,391	4,053,604	-4.27%
Changes in net position	573,832	379,385	24,468	14,263	598,300	393,648	51.99%
Net position beginning of year	4,024,728	3,645,343	35,959	21,696	4,060,687	3,667,039	10.73%
Net position end of year	\$ 4,598,560	4,024,728	60,427	35,959	4,658,987	4,060,687	14.73%

In fiscal 2014, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants accounted for 89.48% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.83% of the revenue from business type activities.

The District's total revenues were approximately \$4.48 million, of which approximately \$4.35 million was for governmental activities and approximately \$0.13 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.71% increase in revenues and a 4.27% decrease in expenses. The increase in revenues is attributable to an increase in state source revenues.

Governmental Activities

Revenues for governmental activities were \$4,345,448 and expenses were \$3,771,616.

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

Figure A-5						
Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 2,540,484	2,693,757	-5.69%	2,282,451	2,400,338	-4.91%
Support services	898,266	886,441	1.33%	864,487	818,745	5.59%
Non-instructional programs	9,236	15,335	-39.77%	9,236	15,335	-39.77%
Other expenses	323,630	347,945	-6.99%	190,096	220,918	-13.95%
Totals	<u>\$ 3,771,616</u>	<u>3,943,478</u>	<u>-4.36%</u>	<u>3,346,270</u>	<u>3,455,336</u>	<u>-3.16%</u>

- The cost financed by users of the District's programs was \$112,525.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$312,821.
- The net cost of governmental activities was financed with \$2,436,999 in property tax, \$194,060 in income surtax, \$261,604 in statewide sales, services and use tax, \$995,479 in unrestricted state grants, \$8,639 in interest income, and \$23,321 in other income.

Business Type Activities

Revenues of the District's business type activities were \$133,243 and expenses were \$108,775. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income and other general revenues.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$3,217,388, above last year's ending fund balances of \$2,848,910. The primary reason for the increase in combined fund balances in fiscal 2014 was due to the increase in the Management Levy Fund and Capital Projects Fund balances.

Governmental Fund Highlights

- The District's decreasing General Fund financial position is the result of many factors. Overall, the General Fund revenues for fiscal 2014 decreased 2.43%, or \$84,031 as compared to fiscal 2013. The total expenditures decreased by \$43,555, or 1.27%. With these factors, the General Fund balance decreased by \$12,446 or 0.95%.
- The Management Fund balance increased from \$605,704 at June 30, 2013 to \$786,030 at June 30, 2014. This was primarily due to an increase in property tax revenues in the fiscal 2014.

- The Capital Projects Fund balance increased from \$586,813 at June 30, 2013 to \$765,702 at June 30, 2014. This increase of the Capital Projects Fund was primarily due to increases in the statewide sales, services and use tax and property tax revenues.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$35,959 at June 30, 2013 to \$60,427 at June 30, 2014, representing an increase of 68.04%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$569,519 less than budgeted revenues, a variance of 11.32%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$3,966,739, 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$243,886.

The original cost of the District's capital assets was \$5,752,188. Governmental funds account for \$5,711,686 with the remainder of \$40,502 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$49,382 at June 30, 2013 as compared to \$67,764 at June 30, 2014, due to the District pouring concrete for a basketball court and installing fencing around the playground area.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 54,700	54,700	-	-	54,700	54,700	0.00%
Buildings	3,789,615	3,874,807	-	-	3,789,615	3,874,807	-2.25%
Land improvements	67,764	49,382	-	-	67,764	49,382	27.13%
Machinery and equipment	47,861	39,685	6,799	6,523	54,660	46,208	15.46%
Total	\$ 3,959,940	4,018,574	6,799	6,523	3,966,739	4,025,097	-1.45%

Long-Term Debt

At June 30, 2014, the District had \$2,720,651 in revenue bonds, capital loan notes and other long-term debt outstanding. This represents a decrease of 8.41% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

- The District had total outstanding revenue bonded indebtedness payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund, of \$2,100,000 at June 30, 2014.
- The District had total capital loan notes payable from the Capital Projects: Physical Plant and Equipment Levy Fund of \$570,000 at June 30, 2014.
- The District had a Net OPEB liability of \$50,651 at June 30, 2014.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30, 2014	2013	June 30, 2013-14
Revenue bonds	\$ 2,100,000	2,210,000	-4.98%
Capital loan note	570,000	700,000	-18.57%
Termination benefits	-	21,530	-100.00%
Net OPEB liability	50,651	38,846	30.39%
Total	<u>\$ 2,720,651</u>	<u>2,970,376</u>	<u>-8.41%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Every year the District negotiates new contracts with the Ar-We-Va Teacher Association. Any settlements in excess of "new money" or growth in the state supplemental aid will have an adverse effect on the District's General Fund budget and related fund balance. The Iowa legislature set state supplemental aid for FY14 at 2% and at the time of this report, had not yet set the state supplemental aid for FY15.
- Funding from federal and state grants needs to be monitored closely, as possible decreases will result in less funding and may require budget adjustments in some areas.
- Increased health insurance costs and transportation costs continue to impact the district.
- The District continues to look at ways to reduce spending. Early retirement incentives were approved by the school board but eligible participants have not chosen to take advantage of the incentive for FY14. The District continues to look at ways to reduce expenditures.
- The administration is in contact with neighboring districts for possible sharing of teachers and operational employees. The District is sending juniors and seniors to Carroll Community School District for up to 4 periods each day. Also at the time of this report, a 28E agreement is in place for FY 15 for a Human Resource and Transportation Director

with East Sac County Schools which results in additional spending authority of 5 students per position for both districts.

- The District's enrollment has been declining for several years and appears that enrollment numbers are beginning to stabilize.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sharon Stickrod, Board Secretary/District Treasurer, Ar-We-Va Community School District, 108 Clinton Street, Westside, IA 51467.

BASIC FINANCIAL STATEMENTS

AR-WE-VA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,357,545	57,651	3,415,196
Receivables:			
Property tax:			
Delinquent	20,312	-	20,312
Succeeding year	2,264,368	-	2,264,368
Income surtax	159,594	-	159,594
Accounts	1,719	-	1,719
Due from other governments	118,340	-	118,340
Inventories	-	3,554	3,554
Bond discounts and bond issue costs	20,901	-	20,901
Capital assets, net of accumulated depreciation	3,959,940	6,799	3,966,739
TOTAL ASSETS	9,902,719	68,004	9,970,723
LIABILITIES			
Accounts payable	280,528	5,897	286,425
Accrued interest payable	38,612	-	38,612
Unearned revenue	-	1,680	1,680
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	115,000	-	115,000
Capital loan note payable	135,000	-	135,000
Portion due after one year:			
Revenue bonds payable	1,985,000	-	1,985,000
Capital loan note payable	435,000	-	435,000
Net OPEB liability	50,651	-	50,651
TOTAL LIABILITIES	3,039,791	7,577	3,047,368
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	2,264,368	-	2,264,368
NET POSITION			
Net investment in capital assets	1,289,940	6,799	1,296,739
Restricted for:			
Categorical funding	158,289	-	158,289
Debt service	395,598	-	395,598
Management levy purposes	786,030	-	786,030
Student activities	118,577	-	118,577
School infrastructure	288,509	-	288,509
Physical plant and equipment	292,248	-	292,248
Unrestricted	1,269,369	53,628	1,322,997
TOTAL NET POSITION	\$ 4,598,560	60,427	4,658,987

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 1,644,387	41,071	39,146	-	(1,564,170)	-	(1,564,170)
Special	450,194	-	15,655	-	(434,539)	-	(434,539)
Other	445,903	71,454	90,707	-	(283,742)	-	(283,742)
	<u>2,540,484</u>	<u>112,525</u>	<u>145,508</u>	<u>-</u>	<u>(2,282,451)</u>	<u>-</u>	<u>(2,282,451)</u>
Support services:							
Student	17,839	-	-	-	(17,839)	-	(17,839)
Instructional staff	33,047	-	-	-	(33,047)	-	(33,047)
Administration	445,798	-	-	-	(445,798)	-	(445,798)
Operation and maintenance of plant	219,916	-	-	17,446	(202,470)	-	(202,470)
Transportation	181,666	-	16,333	-	(165,333)	-	(165,333)
	<u>898,266</u>	<u>-</u>	<u>16,333</u>	<u>17,446</u>	<u>(864,487)</u>	<u>-</u>	<u>(864,487)</u>
Non-instructional programs:							
Community service operations	9,236	-	-	-	(9,236)	-	(9,236)
Long-term debt interest	101,105	-	-	-	(101,105)	-	(101,105)
Other expenditures:							
AEA flowthrough	133,534	-	133,534	-	-	-	-
Depreciation(unallocated)*	88,991	-	-	-	(88,991)	-	(88,991)
	<u>222,525</u>	<u>-</u>	<u>133,534</u>	<u>-</u>	<u>(88,991)</u>	<u>-</u>	<u>(88,991)</u>
Total governmental activities	3,771,616	112,525	295,375	17,446	(3,346,270)	-	(3,346,270)
Business type activities:							
Non-instructional programs:							
Food service operations	108,775	72,435	60,576	-	-	24,236	24,236
Total business type activities	<u>108,775</u>	<u>72,435</u>	<u>60,576</u>	<u>-</u>	<u>-</u>	<u>24,236</u>	<u>24,236</u>
Total	<u>\$ 3,880,391</u>	<u>184,960</u>	<u>355,951</u>	<u>17,446</u>	<u>(3,346,270)</u>	<u>24,236</u>	<u>(3,322,034)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 2,088,524	-	2,088,524
Capital outlay					348,475	-	348,475
Income surtax					194,060	-	194,060
Statewide sales, services and use tax					261,604	-	261,604
Unrestricted state grants					995,479	-	995,479
Unrestricted investment earnings					8,639	73	8,712
Other general revenues					23,321	159	23,480
Total general revenues					<u>3,920,102</u>	<u>232</u>	<u>3,920,334</u>
Change in net position					573,832	24,468	598,300
Net position beginning of year					4,024,728	35,959	4,060,687
Net position end of year					<u>\$ 4,598,560</u>	<u>60,427</u>	<u>4,658,987</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General	Management Levy	Capital Projects	Nonmajor	Total
ASSETS					
Cash and pooled investments	\$ 1,530,934	783,946	672,164	370,501	3,357,545
Receivables:					
Property tax:					
Delinquent	15,352	2,084	2,876	-	20,312
Succeeding year	1,660,303	220,000	384,065	-	2,264,368
Income surtax	159,594	-	-	-	159,594
Accounts	1,695	-	-	24	1,719
Due from other governments	27,678	-	90,662	-	118,340
TOTAL ASSETS	\$ 3,395,556	1,006,030	1,149,767	370,525	5,921,878
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 277,845	-	-	2,683	280,528
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding years property tax	1,660,303	220,000	384,065	-	2,264,368
Income surtax	159,594	-	-	-	159,594
Total deferred inflows of resource	1,819,897	220,000	384,065	-	2,423,962
Fund balances:					
Restricted for:					
Categorical funding	158,289	-	-	-	158,289
Debt service	-	-	184,945	249,265	434,210
Management levy purposes	-	786,030	-	-	786,030
Student activities	-	-	-	118,577	118,577
School infrastructure	-	-	288,509	-	288,509
Physical plant and equipment	-	-	292,248	-	292,248
Unassigned	1,139,525	-	-	-	1,139,525
Total fund balances	1,297,814	786,030	765,702	367,842	3,217,388
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,395,556	1,006,030	1,149,767	370,525	5,921,878

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA 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)	\$	3,217,388
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		3,959,940
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(38,612)
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		159,594
Bond issue costs and bond discounts are an expense when incurred in the governmental funds, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.		20,901
Long-term liabilities, including bonds payable, notes payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(2,720,651)
Net position of governmental activities(page 18)	\$	<u>4,598,560</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	General	Management Levy	Capital Projects	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,018,061	249,617	348,475	-	2,616,153
Tuition	29,697	-	-	-	29,697
Other	46,166	2,816	18,783	73,441	141,206
State sources	1,200,373	77	261,625	-	1,462,075
Federal sources	81,411	-	-	-	81,411
TOTAL REVENUES	3,375,708	252,510	628,883	73,441	4,330,542
EXPENDITURES:					
Current:					
Instruction:					
Regular	1,627,914	20,000	10,830	-	1,658,744
Special	449,219	-	-	-	449,219
Other	373,087	-	-	76,315	449,402
	2,450,220	20,000	10,830	76,315	2,557,365
Support services:					
Student	17,839	-	-	-	17,839
Instructional staff	31,288	-	1,759	-	33,047
Administration	380,660	46,873	17,572	-	445,105
Operation and maintenance of plant	202,279	-	-	-	202,279
Transportation	166,898	5,311	14,970	-	187,179
	798,964	52,184	34,301	-	885,449
Non-instructional programs:					
Community service operations	9,236	-	-	-	9,236
Capital outlay					
	-	-	39,818	-	39,818
Long-term debt:					
Principal	-	-	-	240,000	240,000
Interest and fiscal charges	-	-	-	100,462	100,462
	-	-	-	340,462	340,462
Other expenditures:					
AEA flowthrough	133,534	-	-	-	133,534
TOTAL EXPENDITURES	3,391,954	72,184	84,949	416,777	3,965,864
Excess(Deficiency) of revenues over(under) expenditures	(16,246)	180,326	543,934	(343,336)	364,678
Other financing sources(uses):					
Transfer in	-	-	-	365,045	365,045
Transfer out	-	-	(365,045)	-	(365,045)
Sale of Equipment	3,800	-	-	-	3,800
Total other financing sources(uses)	3,800	-	(365,045)	365,045	3,800
Change in fund balances	(12,446)	180,326	178,889	21,709	368,478
Fund balances beginning of year	1,310,260	605,704	586,813	346,133	2,848,910
Fund balances end of year	\$ 1,297,814	786,030	765,702	367,842	3,217,388

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA 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) \$ 368,478

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. Depreciation expense and capital outlay expenditures in the current year are as follows:

Capital outlays	\$ 183,804	
Depreciation expense	<u>(242,438)</u>	(58,634)

Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 240,000

Bond issue costs and bond discounts are reported as expenses in the governmental funds, but are capitalized and amortized over the life of the bonds in the Statement of Activities. (1,394)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 14,906

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 751

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	21,530	
Other postemployment benefits	<u>(11,805)</u>	<u>9,725</u>

Change in net position of governmental activities(page 19) \$ 573,832

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2014

	Enterprise, School Nutrition
ASSETS	
Cash and pooled investments	\$ 57,651
Inventories	3,554
Capital assets, net of accumulated depreciation	6,799
TOTAL ASSETS	68,004
LIABILITIES	
Accounts payable	5,897
Unearned revenue	1,680
TOTAL LIABILITIES	7,577
NET POSITION	
Invested in capital assets	6,799
Unrestricted	53,628
TOTAL NET POSITION	\$ 60,427

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014

	Enterprise, School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 72,435
Miscellaneous	159
TOTAL OPERATING REVENUES	72,594
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	37,091
Benefits	6,202
Services	5,897
Supplies	58,137
Depreciation	1,448
TOTAL OPERATING EXPENSES	108,775
OPERATING LOSS	(36,181)
NON-OPERATING REVENUES:	
State sources	1,207
Federal sources	59,369
Interest income	73
TOTAL NON-OPERATING REVENUES	60,649
Change in net position	24,468
Net position beginning of year	35,959
Net position end of year	\$ 60,427

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2014

	Enterprise, School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 72,571
Cash received from miscellaneous sources	159
Cash payments to employees for services	(43,293)
Cash payments to suppliers for goods or services	(51,042)
Net cash used in operating activities	(21,605)
Cash flows from non-capital financing activities:	
State grants received	1,207
Federal grants received	52,708
Net cash provided by non-capital financing activities	53,915
Cash flows from capital financing activities:	
Purchase of capital assets	(1,724)
Cash flows from investing activities:	
Interest on investments	73
Net increase in cash and cash equivalents	30,659
Cash and cash equivalents beginning of year	26,992
Cash and cash equivalents end of year	\$ 57,651
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (36,181)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	6,661
Depreciation	1,448
Decrease in inventories	461
Increase in accounts payable	5,870
Increase in deferred revenue	136
Net cash used in operating activities	\$ (21,605)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$6,661.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies

The Ar-We-Va Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades preschool through twelve. The geographic area served includes the Cities of Arcadia, Vail and Westside, Iowa, and the predominate agricultural territory in Carroll and Crawford Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Carroll and Crawford Counties Assessor's 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 non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from Business type activities, which rely to a significant extent on fees and charges for service.

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

Net investment in capital assets consist of capital assets, net of accumulated depreciation and reduced by outstanding balance for bonds 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 often has constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major 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 Management Fund is utilized to account for the payment of property insurance and unemployment benefits.

The District reports the following non major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as

expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 1,000
Buildings	2,000
Land improvements	2,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years
Intangibles	5-10 years
Machinery and equipment	5-15 years

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

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

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

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

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

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

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

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; 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 \$57 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.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services, and Use Tax	\$ 185,045
Debt Service	Capital Projects: Physical Plant and Equipment Levy	180,000
		<u>\$ 365,045</u>

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

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 54,700	-	-	54,700
Capital assets being depreciated:				
Buildings	4,558,418	-	-	4,558,418
Land improvements	123,963	22,181	-	146,144
Machinery and equipment	896,290	161,623	105,489	952,424
Total capital assets being depreciated	5,578,671	183,804	105,489	5,656,986
Less accumulated depreciation for:				
Buildings	683,611	85,192	-	768,803
Land improvements	74,581	3,799	-	78,380
Machinery and equipment	856,605	153,447	105,489	904,563
Total accumulated depreciation	1,614,797	242,438	105,489	1,751,746
Total capital assets being depreciated, net	3,963,874	(58,634)	-	3,905,240
Governmental activities capital assets, net	\$ 4,018,574	(58,634)	-	3,959,940
Business type activities:				
Machinery and equipment	\$ 38,778	1,724	-	40,502
Less accumulated depreciation	32,255	1,448	-	33,703
Business type activities capital assets, net	\$ 6,523	276	-	6,799

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$ 5,077	
Other	4,708	
Support services:		
Transportation	143,662	
	153,447	
Unallocated depreciation	88,991	
Total governmental activities depreciation expense	\$ 242,438	
Business type activities:		
Food services operations	\$ 1,448	

(5) **Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
<u>Governmental activities:</u>					
Revenue bonds	\$ 2,210,000	-	110,000	2,100,000	115,000
Capital loan note	700,000	-	130,000	570,000	135,000
Termination benefits	21,530	-	21,530	-	-
Net OPEB liability	38,846	11,805	-	50,651	-
Total	\$ 2,970,376	11,805	261,530	2,720,651	250,000

Revenue Bonds Payable

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 September 1, 2011			
	Interest Rate	Principal	Interest	Total
2015	2.00 %	\$ 115,000	69,945	184,945
2016	2.00	105,000	67,645	172,645
2017	2.00	110,000	65,545	175,545
2018	2.25	110,000	63,345	173,345
2019	2.60	115,000	60,870	175,870
2020-2024	2.90-3.50	620,000	252,526	872,526
2025-2029	3.75-4.20	755,000	131,804	886,804
2030	4.25	170,000	7,225	177,225
Total		\$ 2,100,000	718,905	2,818,905

The District has pledged future statewide sales, services, and use tax revenues to repay the \$2,305,000, issued on September 1, 2011. The statewide sales, services and use tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure and are payable through 2030. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District. 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 the bonds are expected to require nearly 71% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$2,818,905. For the current year, principal of \$110,000 and interest of \$72,145 was paid on the bonds and the statewide sales, services and use tax revenues were \$261,604.

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

- a) \$184,945 of the proceeds from the issuance of the revenue bonds shall be deposited to a 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.

Capital Loan Note Payable

Details of the District’s June 30, 2014 capital loan note indebtedness, payable from the Capital Projects: Physical Plant and Equipment Levy, is as follows:

Year Ending June 30,	Issue of April 1, 2008				
	Interest Rate	Principal	Interest	Total	
2015	3.65 %	\$ 135,000	21,832	156,832	
2016	3.75	140,000	16,905	156,905	
2017	3.90	145,000	11,655	156,655	
2018	4.00	150,000	6,000	156,000	
Total		\$ 570,000	56,392	626,392	

(6) Termination Benefits

In December 2013 and 2014, the District approved a one-time voluntary early retirement plan for employees. Eligible employees must have completed at least fifteen years of consecutive teaching experience to the District and must have reached the age of fifty-five on or before June 30th of the year of retirement. The application for early retirement was subject to approval by the Board of Education.

Early retirement benefits were equal to a one-time cash stipend of \$20,000 payable in July of the retiring year.

In fiscal year 2014, there were no employees who took advantage of the early retirement incentive. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$21,530 for one early retiree approved in fiscal year 2013.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District’s contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$168,508, \$165,297 and \$160,483 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical benefits for employees, retirees and their spouses. There are 26 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit rate 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 funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

Annual required contribution	\$ 15,106
Interest on net OPEB obligation	971
Adjustment to annual required contribution	<u>(2,915)</u>
Annual OPEB cost	13,162
Contributions made	<u>(1,357)</u>
Increase in net OPEB obligation	11,805
Net OPEB obligation beginning of year	<u>38,846</u>
Net OPEB obligation end of year	<u><u>\$ 50,651</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the ended June 30, 2014, the District contributed \$1,357 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 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 14,144	37.6%	\$ 27,247
2013	13,402	13.5	38,846
2014	13,162	10.3	50,651

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$93,912, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$93,912. The covered payroll (annual payroll of active employees covered by the plan) was \$1,657,240 and the ratio of UAAL to covered payroll was 5.7%. 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 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, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy and a health cost trend rate of 6% per year

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

Projected premium costs of the medical plan are \$471 per month for the retired members of the plan. The UAAL is being amortized as a level percentage projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$133,534 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.

(11) Categorical Funding

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

Program	Amount
Four year old preschool state aid	\$ 67,343
Teacher salary supplement	21,110
Market factor	1,670
Market factor incentives	2,697
Professional development for model core curriculum	8,594
Professional development	37,950
Successful progression for early readers	12,814
Teacher leadership	6,111
Total	<u>\$ 158,289</u>

(12) Detailed Reconciliation of Governmental Fund Balances to Net Position

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

	Invested in Capital Assets	Debt Service	Unassigned/ Unrestricted Balances
Fund Balance (Exhibit C)	\$ -	434,210	1,139,525
Capital assets	3,959,940	-	-
Revenue bond capitalized indebtedness	(2,100,000)	-	-
Capital loan noted capitalized indebtedness	(570,000)	-	-
Income surtax	-	-	159,594
Accrued interest payable	-	(38,612)	-
Bond discounts and bond issue costs	-	-	20,901
Net OPEB liability	-	-	(50,651)
Net position (Exhibit A)	<u>\$ 1,289,940</u>	<u>395,598</u>	<u>1,269,369</u>

(13) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of 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.

AR-WE-VA COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual			Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 2,787,056	72,667	2,859,723	3,560,516	3,560,516	(700,793)
State sources	1,462,075	1,207	1,463,282	1,257,788	1,257,788	205,494
Federal sources	81,411	59,369	140,780	215,000	215,000	(74,220)
Total revenues	4,330,542	133,243	4,463,785	5,033,304	5,033,304	(569,519)
Expenditures/expenses:						
Instruction	2,557,365	-	2,557,365	3,272,418	3,272,418	715,053
Support services	885,449	-	885,449	1,413,184	1,413,184	527,735
Non-instructional programs	9,236	108,775	118,011	200,000	200,000	81,989
Other expenditures	513,814	-	513,814	638,150	638,150	124,336
Total expenditures/expenses	3,965,864	108,775	4,074,639	5,523,752	5,523,752	1,449,113
Excess(Deficiency) of revenues over(under) expenditures/expenses	364,678	24,468	389,146	(490,448)	(490,448)	879,594
Other financing uses, net	3,800	-	3,800	-	-	3,800
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	368,478	24,468	392,946	(490,448)	(490,448)	883,394
Balances beginning of year	2,848,910	35,959	2,884,869	1,316,853	1,316,853	1,568,016
Balances end of year	\$ 3,217,388	60,427	3,277,815	826,405	826,405	2,451,410

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

AR-WE-VA 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 (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 79,000	\$ 79,000	0.00%	\$ 2,149,000	3.7%
2011	July 1, 2009	-	79,000	79,000	0.00	2,215,000	3.6
2012	July 1, 2009	-	72,000	72,000	0.00	2,081,000	3.5
2013	July 1, 2012	-	101,525	101,525	0.00	1,480,989	6.9
2014	July 1, 2012	-	93,912	93,912	0.00	1,657,240	5.7

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

AR-WE-VA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	<u>Special Revenue</u>		
	Student Activity	Debt Service	Total
ASSETS			
Cash and pooled investments	\$ 121,236	249,265	370,501
Accounts receivable	24	-	24
TOTAL ASSETS	\$ 121,260	249,265	370,525
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,683	-	2,683
Deferred inflows of resources	-	-	-
Fund balances:			
Restricted for:			
Debt service	-	249,265	249,265
Student activities	118,577	-	118,577
Total fund balances	118,577	249,265	367,842
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 121,260	249,265	370,525

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	<u>Special Revenue</u>		
	<u>Student Activity</u>	<u>Debt Service</u>	<u>Total</u>
REVENUES:			
Local sources:			
Other	\$ 73,441	-	73,441
EXPENDITURES:			
Current:			
Instruction:			
Other	76,315	-	76,315
Other expenditures:			
Long-term debt:			
Principal	-	240,000	240,000
Interest and fiscal charges	-	100,462	100,462
TOTAL EXPENDITURES	76,315	340,462	416,777
Deficiency of revenues under expenditures	(2,874)	(340,462)	(343,336)
Other financing sources:			
Transfer in	-	365,045	365,045
Change in fund balances	(2,874)	24,583	21,709
Fund balances beginning of year	121,451	224,682	346,133
Fund balances end of year	\$ 118,577	249,265	367,842

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AR-WE-VA 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	\$ 382,792	289,372	672,164
Receivables:			
Property tax:			
Delinquent	-	2,876	2,876
Succeeding year	-	384,065	384,065
Due from other governments	90,662	-	90,662
TOTAL ASSETS	\$ 473,454	676,313	1,149,767
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:	\$ -	-	-
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	384,065	384,065
Fund balances:			
Restricted for:			
Debt service	184,945	-	184,945
School infrastructure	288,509	-	288,509
Physical plant and equipment	-	292,248	292,248
Total fund balances	473,454	292,248	765,702
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 473,454	676,313	1,149,767

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	348,475	348,475
Other	665	18,118	18,783
State sources	261,604	21	261,625
TOTAL REVENUES	262,269	366,614	628,883
EXPENDITURES:			
Current:			
Instruction:			
Regular	-	10,830	10,830
Support services:			
Instructional staff	-	1,759	1,759
Administration	-	17,572	17,572
Transportation	-	14,970	14,970
Capital outlay	-	39,818	39,818
TOTAL EXPENDITURES	-	84,949	84,949
Excess of revenues over expenditures	262,269	281,665	543,934
Other financing uses:			
Transfer out	(185,045)	(180,000)	(365,045)
Change in fund balances	77,224	101,665	178,889
Fund balances beginning of year	396,230	190,583	586,813
Fund balances end of year	\$ 473,454	292,248	765,702

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AR-WE-VA 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	Intrafund Transfers	Balance End of Year
School Plays	\$ 2,449	597	419	-	2,627
Music	1,280	750	829	-	1,201
Athletic Fund	40,382	31,157	35,074	5,000	41,465
Cross Country	126	-	-	-	126
Football	683	-	-	-	683
Baseball	4,057	480	366	-	4,171
Basketball - Girls	-	909	909	-	-
Volleyball	381	2,791	2,846	-	326
Honor Society	305	482	692	-	95
Student Council	4,688	2,531	3,547	-	3,672
Weight Room Fund	3,678	-	-	-	3,678
Class of 2014	6	-	-	(6)	-
Class of 2015	2,500	7,292	7,538	(1,500)	754
Class of 2016	140	829	-	1,500	2,469
Class of 2017	486	180	-	-	666
Class of 2018	-	632	452	6	186
Concessions	30,811	10,376	4,803	(8,125)	28,259
Elementary	6,142	745	1,005	-	5,882
Industrial Arts	994	525	525	-	994
Middle School	15,685	7,907	6,915	125	16,802
High School Annual	510	1,089	4,532	3,000	67
Cheerleader	796	785	495	-	1,086
Dance Team	5,251	3,384	5,368	-	3,267
Art Club	101	-	-	-	101
Total	\$ 121,451	73,441	76,315	-	118,577

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AR-WE-VA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES/EXPENSES 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	\$ 2,616,153	2,938,858	2,409,961	2,342,115	2,056,978	1,918,370	1,552,235	1,526,452	1,378,076	1,305,000
Tuition	29,697	30,927	104,865	187,251	59,717	104,412	159,926	62,688	90,374	231,661
Other	141,206	190,097	187,489	168,546	191,853	261,494	301,952	266,527	209,451	209,627
State sources	1,462,075	1,082,369	1,299,948	1,311,442	1,451,190	1,638,819	1,870,705	1,717,550	1,711,092	1,770,346
Federal sources	81,411	90,496	118,450	222,648	397,037	213,440	193,556	163,862	257,805	217,064
Total	\$ 4,330,542	4,332,747	4,120,713	4,232,002	4,156,775	4,136,535	4,078,374	3,737,079	3,646,798	3,733,698
Expenditures:										
Current:										
Instruction:										
Regular	\$ 1,658,744	1,738,777	1,555,382	1,690,127	1,596,556	1,617,329	1,510,528	1,614,385	1,456,689	1,425,444
Special	449,219	493,856	323,662	410,700	379,183	416,151	491,023	476,736	397,140	388,622
Other	449,402	425,520	520,450	576,477	506,991	486,379	462,492	457,267	437,695	428,306
Support services:										
Student	17,839	11,405	17,680	15,822	19,569	29,652	47,646	46,063	53,940	73,383
Instructional staff	33,047	26,216	48,521	32,904	25,172	23,897	37,104	36,208	34,705	36,364
Administration	445,105	446,408	441,185	400,848	381,116	444,888	467,557	482,073	491,699	470,222
Operation and maintenance of plant	202,279	193,890	227,832	216,671	205,933	235,322	249,253	259,977	274,312	304,369
Transportation	187,179	168,128	186,149	265,562	146,732	294,162	227,963	251,196	299,595	183,291
Non-instructional programs	9,236	15,335	18,498	18,272	18,397	19,151	23,312	18,060	-	3,522
Capital outlay	39,818	318,567	1,849,406	121,926	69,171	690,478	1,286,148	80,384	219,222	166,846
Long-term debt:										
Principal	240,000	220,000	395,000	195,000	200,000	-	-	-	-	-
Interest and fiscal charges	100,462	106,362	66,763	52,665	58,015	-	-	-	-	-
Other expenditures:										
AEA flow-through	133,534	127,027	128,599	147,351	147,136	138,265	136,401	131,790	126,576	137,685
Total	\$ 3,965,864	4,291,491	5,779,127	4,144,325	3,753,971	4,395,674	4,939,427	3,854,139	3,791,573	3,618,054

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

To the Board of Education of the Ar-We-Va Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Ar-We-Va Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 22, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 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.

Ar-We-Va Community School District's Responses to Findings

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

Purpose of this Report

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 22, 2015
Newton, Iowa

AR-WE-VA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Internal Controls - One of the most important responsibilities of the District is to maintain a system of internal control for efficient operation. The District's Board of Directors is responsible for making policies and procedures that safeguard District assets, ensure District financial information is accurate, ensure employees are complying with laws and regulations pertinent to the District and discipline employees that choose not to comply with Board policies and procedures.

The successful operation of the District's internal controls is dependent upon having sufficient and properly trained management and personnel to ensure that the policies and procedures formed by the Board of Directors are being followed. From our audit it appears the District's internal control structure has several breakdowns, some of which are apparent in the comments that follow in the remainder of this report.

Recommendation - The District's Board of Directors and management staff should review policies and procedures in place and evaluate the effectiveness of internal controls currently in place. Changes in the internal control structure will have to be made for the District to gain full effectiveness of internal control. Additional training may be necessary to achieve this goal.

Response - The Board of Directors and Business Manager will review and evaluate the effectiveness of the policies and procedures in place; develop new policies and procedures where necessary; and determine changes that need to be made to assure a proper, reliable, and efficient system of internal controls are in place. Educating staff on the importance of internal controls and following proper business and accounting procedures will be provided by the Superintendent.

Conclusion - Response accepted.

I-B-14 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.

- 4) Disbursements - purchase order processing, check preparation, mailing and recording, adding and deleting vendors.
- 5) Capital assets - purchasing, recording and reconciling.
- 6) Wire transfers - access to accounts, processing and approving.
- 7) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 8) Transfers - preparing and approving.
- 9) Financial reporting - preparing, reconciling and approving.
- 10) Computer systems - performing all general accounting functions and controlling all data input and output.
- 11) School lunch Inventories - ordering, receiving, maintaining records and access to inventory.
- 12) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - Segregation of duties will always be an issue in a small District. The District will continue to reevaluate internal controls and tests to ensure compliance with these controls; as well as, incorporate additional internal controls where necessary. The District will continue to utilize current personnel and elected officials to obtain maximum internal control possible.

Conclusion - Response accepted.

- I-C-14 Organizational Chart - During the audit, it appeared that not all of the accounting personnel were communicating with the Business Manager. Some of the accounting personnel were answering to other administrators with no accountability to the Business Manager.

Recommendation - The District should review the organizational chart to ensure that clear communication lines are in place. This will allow for better compliance with all regulations and should produce better records.

Response - The Board of Directors will review the organizational chart. The organizational chart is included in the Staff Handbook which is distributed at the beginning of each school year to all employees of the district. The Superintendent will address the importance of following the proper chain of command with all employees to develop a strong communication line to increase internal controls and to safeguard the District's assets. Emphasis will be made to employees that the organization chart was developed to provide guidance by laying out the official reporting relationships that govern the workflow of the school and provide clarity on managerial authority on who to report to in different situations.

Conclusion - Response accepted.

I-D-14 Gate Admissions - It was noted that the District does not always use pre-numbered tickets for all events that require an admission.

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

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

Response - The District began using pre-numbered tickets for all events that require an admission at the beginning of the 2014-15 school year.

Conclusion - Response accepted.

I-E-14 Employee Reimbursements - We noted during our audit that employees purchase supplies for the District and turn photocopied receipts into the central office for reimbursement.

Recommendation - Photocopied receipts do not provide adequate support for purchases due to the ability to alter the photocopy. Employees who make purchases for the District should turn in the original receipt to the District central office for reimbursement.

Response - The District will not accept photocopied receipts for reimbursement to employees as stated in the school board policy.

Conclusion - Response accepted.

- I-F-14 Reconciliation of Shirt Orders - We noted that when the District orders resale shirts in the Student Activity Fund there is not a reconciliation of ordered shirts to payment for shirts.

Recommendation - The District should implement procedures where sponsors reconcile cash collections for shirts to the number of shirts sold. The reconciliation should include the name and amount collected from each person. The amount collected should be reconciled to the deposit made by District personnel. In addition, sponsors should turn the reconciliation into the central office for review and verification and for use in their reconciliation procedures.

Response - The District's procedures for the reconciliation of cash collections for resale items will be followed. The reconciliation will include detailed information showing the purchaser's name, amount collected -cash/check, quantity, and detail of items purchased. All receipts to resale purchase will be reconciled by the central office prior to any order placed, attached to the purchase order, and provided to the Business Manager. Items not paid for in advance will not be authorized for purchase.

Conclusion - Response accepted.

- I-G-14 Enrollment Procedures - We noted during our audit that it appears the District's internal controls regarding certified enrollment reporting are insufficient to ensure reporting accuracy to the Iowa Department of Education.

A secretary has access to the JMC software where students' enrollment status records and class attendance records are maintained. This secretary as well as the superintendent has access to the PEACE system where the District's enrollment is certified to the Iowa Department of Education. This secretary also assists the superintendent in verifying data submitted to the Iowa Department of Education. With two individuals working together to certify the enrollment and having access to the system to track enrollment, it does not appear that the District has adequate segregation of duties in verifying that all data is entered correctly.

Recommendation - The District should review the policies and procedures in place regarding certified enrollment reporting. At a minimum, the District should address issues concerning system security controls, student addition/removal controls, cutoff procedures, and daily attendance records. The District may wish to install additional procedures including but not limited to additional review of enrollment data by another individual before it is submitted to the Iowa Department of Education. The District should also evaluate if additional training may be necessary for staff who work with certified enrollment.

Response - The guidance counselor and secretary will work together for initial submittal which will be approved by the Superintendent.

Conclusion - Response accepted.

I-H-14 New Vendors - We noted during our audit that there does not appear to be procedures in place to verify the validity of new vendors that are added to the system.

Recommendation - Better internal controls would be achieved by having the Business Manager involved in the adding and deleting of vendors from the system. This allows the Business Manager to be aware of vendors the District is doing business with prior to the arrival of the bills. This would also increase the efficiency of the accounts payable function by allowing the Business Manger to determine the validity of vendors before the bill arrives.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

I-I-14 Employee Ordering - We noted during our audit that it appeared that school employees were ordering from District vendors and having personal items sent to the District.

Recommendation - Employees can order from common vendors of the District, however, these items should be sent to the employee's personal address. Making orders from common vendors and having the item come to the District causes confusion in the receiving function as to whether the items are District property or employee property.

Response - The Superintendent will educate staff that any purchase with the school's name needs to be authorized for purchase; as well as, any purchase that is personal in nature shall be sent to the employee's home address. We will comply with this recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

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

II-B-14 Questionable Disbursements - We noted during our audit that the District held a Junior Class Bags Tournament and gave out \$90 in prize money to the top three finishers. Giving cash prizes does not allow the Board to audit and allow the final purchase as required by Chapter 279.29 of the Code of Iowa and does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should refrain from giving cash to students. The District should review the purchasing procedures it has in place and make necessary adjustments to ensure that all purchases meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Response - The District will no longer provide cash to students or allow the purchase of gift cards from any District funds. The District will review purchasing procedures it has in place and make adjustments to ensure that all purchases meet public purpose.

Conclusion - Response accepted.

II-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.

II-D-14 Business Transactions - Business transactions between the District and District Officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Todd Danner, Board Member Athletic Official	Services	\$780
Denise Ragaller, Board Member Spouse is an Athletic Official	Services	\$255
Bernice Vetter, Cook Baked Goods	Services	\$45

In accordance with Attorney's General Opinion dated July 2, 1990, the above transactions with Bernice Vetter do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Iowa Code, the above transactions with Todd Danner and the spouse of Denise Ragaller do not appear to represent a conflict of interest.

II-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.

II-F-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-14 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-14 Supplementary Weighting - We noted variances regarding the supplementary weighting certified to the Iowa Department of Education. We noted that the supplementary weighting certified to the Iowa Department of Education was overstated by 0.812 FTE.

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

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

Conclusion - Response accepted.

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

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

II-K-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-14 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance		\$	396,230
Revenues:			
Sales tax revenues	\$	261,604	
Other local revenues		665	262,269
			<u>658,499</u>
Expenditures/transfers out:			
Transfers to other funds:			
Debt service fund			<u>185,045</u>
Ending balance		\$	<u><u>473,454</u></u>

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

II-M-14 Fieldtrips - We noted during our audit that the District conducts fundraisers to help defray the costs of fieldtrips. However, individual students are given accounts to allocate how much each student has raised individually and the student must pay the difference between the cost of the fieldtrip and the money raised by the student. This does not appear to ensure equitable participation in fundraising benefits for the students. We also noted that it appeared that fieldtrips are counted as part of the 180 days of instruction.

Recommendation - Per Chapter 9 of the Uniform Accounting Procedure Manual, All members of a student activity group must have equitable opportunity to participate in the benefits offered by the group. All criteria for participation in a benefit offered to some, but not all, members of the group must be approved by the local school board. These benefits may be defined locally, but must include attendance at any state-level or national-level conferences, as well as all other activities that are not available to all student members of the group because of cost restrictions.

The August 14, 2008 Declaratory Ruling issued by the Department of Education, states that "costs associated with field trips may not be passed along to students if the field trip is a part of a class, whether or not attendance is mandatory". It further states "When a field trip is part of a class, the activity is part of instruction, and therefore falls under tuition, not an allowable fee. If the activity is not part of instruction, the field trip should not be taking place during a "day of instruction" unless the day is not counted by the District as one of its 180 days of instruction for students. Therefore, there may be no charge passed along to students for an activity that is even more clearly part of a class activity."

Response - The District will not pass the cost of instructional field trips to students but accept donations and conduct student fundraisers with proceeds received in the general fund for the benefit of all students to help defray the cost of student instructional field trips.

Conclusion - Response accepted.

II-N-14 Student Activity Fund - In accordance with 298.8 of the Code of Iowa and the Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. A more specific example of these instances of questioned items and recommendations is as follows:

Resale Items: We noted that the Music account and the Industrial Tech. account were used to account for resale of supplies. According to Chapter 301.1 of the Code of Iowa, sale of school supplies (commonly referred to as resale) shall be accounted for in the General Fund.

Recommendation - Resale items should be accounted for in the General Fund per Iowa Code Chapter 301.1.

Response - We will comply with this recommendation.

Conclusion - Response accepted.