

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

JUNE 30, 2014

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ATLANTIC COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2013 Election)		
Kristy Pellett	Board President	2013
Dennis Davis	Vice President	2015
Phil Hascall	Board Member	2015
Rodney Hartwig	Board Member	2015
Josh McLaren	Board Member	2013
(After September 2013 Election)		
Kristy Pellett	Board President	2017
Dennis Davis	Vice President	2015
Phil Hascall	Board Member	2015
Rodney Hartwig	Board Member	2015
Josh McLaren	Board Member	2017
School Officials		
Dr. Michael Amstein	Superintendent	2014
Mary Beth Fast	Business Manager/Board Secretary	2014
Melinda McDermott	District Treasurer	2014
Lynch Dallas, P.C.	Attorney	2014



Atlantic 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 Atlantic 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 the Atlantic Community School District, Atlantic, 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 propose of expressing an opinion of the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of account 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 the Atlantic 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 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Atlantic Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 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 13, 2015 on our consideration of Atlantic 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 Atlantic Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Atlantic 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 increased to \$16,291,446 in fiscal year 2014 from \$15,625,191 in fiscal year 2013, while General Fund expenditures increased from \$16,749,615 in fiscal 2013 to \$17,015,335 in fiscal 2014. The increase in General Fund revenues was not enough to offset the increase in expenditures causing a decrease in the District's General Fund balance from \$534,646 at June 30, 2013 to a deficit \$189,243 at June 30, 2014, a 135.40% decrease from the prior year.
- The increase in General fund revenues was attributed to the increase in state sources received during fiscal 2014 while the increase in expenditures can be attributed to an increase in salaries and benefits received by District employees.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Atlantic 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 Atlantic 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 Atlantic 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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various federal programs benefiting the District.

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

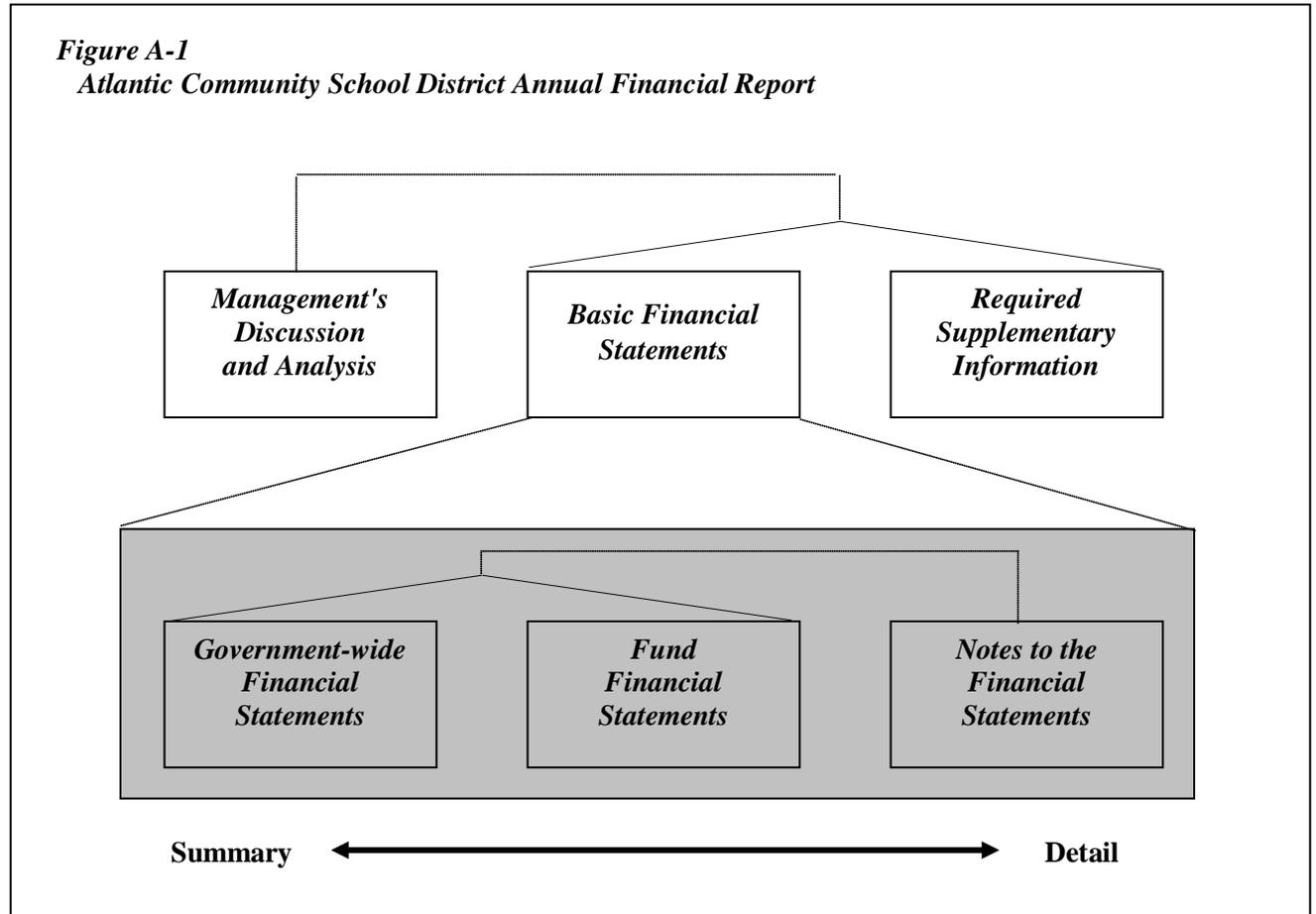


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net position and how 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 three kinds of funds:

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

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

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

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

The District's internal service fund (another type of proprietary fund) is the same as its governmental activities but provide more detail and additional information, such as cash flows. The District has one internal service fund to track revenues and expenditures for the District's partially self-funded insurance program.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Figure A-3						
	Condensed Statement of Net Position						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
June 30,		June 30,		June 30,		June 30,	
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 11,108,651	12,091,469	462,023	479,946	11,570,674	12,571,415	-7.96%
Capital assets	22,240,457	22,182,685	108,252	92,874	22,348,709	22,275,559	0.33%
Total assets	33,349,108	34,274,154	570,275	572,820	33,919,383	34,846,974	-2.66%
Long-term obligations	7,919,011	7,606,323	3,324	2,787	7,922,335	7,609,110	4.12%
Other liabilities	2,180,242	2,628,249	17,406	24,244	2,197,648	2,652,493	-17.15%
Total liabilities	10,099,253	10,234,572	20,730	27,031	10,119,983	10,261,603	-1.38%
Deferred inflows of resources	6,271,327	5,839,597	-	-	6,271,327	5,839,597	7.39%
Net position:							
Net investment in capital assets	15,515,457	15,085,847	108,252	92,874	15,623,709	15,178,721	2.93%
Restricted	1,677,834	2,369,190	-	-	1,677,834	2,369,190	-29.18%
Unrestricted	(214,763)	744,948	441,293	452,915	226,530	1,197,863	-81.09%
Total net position	\$ 16,978,528	18,199,985	549,545	545,789	17,528,073	18,745,774	-6.50%

The District's combined net position decreased by 6.50%, or \$1,217,701, from the prior year. The largest portion of the District's net position is the 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 decreased \$691,356, or 29.18% from the prior year. The decrease in restricted net position can be attributed to the decrease in ending fund balance of the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$971,333, or 81.09%. The decrease in unrestricted net position is mainly attributable to the decrease in ending fund balance for the General Fund.

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

Figure A-4 Changes of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues							
Program revenues:							
Charges for service	\$ 1,205,522	1,269,207	375,329	381,536	1,580,851	1,650,743	-4.23%
Operating grants, contributions and restricted interest	1,679,231	1,740,992	558,758	498,772	2,237,989	2,239,764	-0.08%
Capital grants, contributions and restricted interest	49,796	-	-	-	49,796	-	100.00%
General revenues:							
Property tax	5,849,501	5,612,548	-	-	5,849,501	5,612,548	4.22%
Income surtax	1,132,939	984,668	-	-	1,132,939	984,668	15.06%
Statewide sales, services and use tax	1,241,804	1,230,808	-	-	1,241,804	1,230,808	0.89%
Unrestricted state grants	7,701,818	7,294,770	-	-	7,701,818	7,294,770	5.58%
Unrestricted investment earnings	408	1,114	107	110	515	1,224	-57.92%
Other	134,166	185,735	3,492	2,150	137,658	187,885	-26.73%
Total revenues	18,995,185	18,319,842	937,686	882,568	19,932,871	19,202,410	3.80%
Program expenses:							
Instruction	12,594,181	12,104,338	-	-	12,594,181	12,104,338	4.05%
Support services	5,964,889	4,777,427	17,954	6,366	5,982,843	4,783,793	25.06%
Non-instructional programs	3,817	3,491	915,976	842,249	919,793	845,740	8.76%
Other expenditures	1,653,755	1,455,054	-	-	1,653,755	1,455,054	13.66%
Total expenses	20,216,642	18,340,310	933,930	848,615	21,150,572	19,188,925	10.22%
Excess(Deficiency) of revenues over (under) expenses	(1,221,457)	(20,468)	3,756	33,953	(1,217,701)	13,485	-9130.04%
Transfers	-	(19,484)	-	19,484	-	-	0.00%
Change in net position	(1,221,457)	(39,952)	3,756	53,437	(1,217,701)	13,485	-9130.04%
Net position beginning of year	18,199,985	18,239,937	545,789	492,352	18,745,774	18,732,289	0.07%
Net position end of year	\$ 16,978,528	18,199,985	549,545	545,789	17,528,073	18,745,774	-6.50%

In fiscal 2014, local tax (property tax and income surtax) statewide sales, services and use tax and unrestricted state grants accounted for 83.84% of the revenue from governmental activities while charges for services and operating grants and contributions account for approximately 99.62% of the revenue from business type activities.

The District's total revenues were approximately \$19.93 million of which approximately \$18.99 million was for governmental activities and approximately \$0.94 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 3.80% in revenues and a 10.22% increase in expenses. The increase in revenues is attributable to the increase in unrestricted state grant revenue received while the increase in expenses was largely attributable to increased salaries and benefits received by District employees.

Governmental Activities

Revenues for governmental activities were \$18,995,185 and expenses were \$20,216,642 for the year ended June 30, 2014.

The following table represents 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.

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 12,594,181	12,104,338	4.05%	10,253,459	9,648,322	6.27%
Support services	5,964,889	4,777,427	24.86%	5,939,273	4,764,745	24.65%
Non-instructional programs	3,817	3,491	9.34%	3,817	3,491	9.34%
Other expenses	1,653,755	1,455,054	13.66%	1,085,544	913,553	18.83%
Totals	<u>\$ 20,216,642</u>	<u>18,340,310</u>	<u>10.23%</u>	<u>17,282,093</u>	<u>15,330,111</u>	<u>12.73%</u>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$1,205,522.
- Federal and state governments subsidized certain programs with grants and contributions from outside organizations totaled \$1,729,027.
- The net cost of governmental activities was financed with \$5,849,501 in property tax, \$1,132,939 in income surtax, \$1,241,804 in statewide sales, services and use tax, \$7,701,818 in unrestricted state grants, \$408 in interest income and \$134,166 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$937,686 and expenses were \$933,930. 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 Atlantic Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,400,101, below last year's ending fund balances of \$2,563,698. The primary reason for the decrease in combined fund balance is the decrease in the General Fund and Capital Projects: Statewide Sales, Services and Use Tax Fund balances.

Governmental Fund Highlights

- The District's decrease in General Fund financial position from \$534,646 at June 30, 2013 to a deficit \$189,243 at June 30, 2014 is a product of many factors. Revenues increased due to the increase in the amount of state source revenue collected during the year while expenditures increased due to an increase in salaries and benefits paid to District employees. The increase in revenues was not large enough to offset the increase in expenses leading to the decreased fund balance.
- The Capital Projects Funds(Statewide Sales, Services and Use Tax Fund and the Physical Plant and Equipment Levy Fund) combined balance decreased from \$1,093,643 at June 30, 2013 to \$376,319 at June 30, 2014. The Statewide Sales, Services and Use Tax Fund decreased to an ending fund balance of \$331,458 at June 30, 2014 compared to \$929,806 at June 30, 2013. The Physical Plant and Equipment Levy Fund decreased from a fund balance of \$163,837 at June 30, 2013 to \$44,861 at June 30, 2014.
- The Debt Service Fund balance decreased from \$647,689 at June 30, 2013 to \$646,188 at June 30, 2014. The primary reason for this decrease in fund balance is a decrease in local tax sources received due to no levies being issued for the Debt Service Fund in fiscal 2014 as the District paid off its general obligation bond indebtedness in fiscal 2013.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$545,789 at June 30, 2013 to \$549,545 at June 30, 2014, representing an increase of 0.69%. An increase in Federal source revenues help attribute to the increase in fund balance during fiscal 2014.

BUDGETARY HIGHLIGHTS

Over the course of the year, Atlantic Community School District amended its budget one time to reflect additional expenditures associated with high school and middle school sound system and lighting projects.

The District's revenues were \$1,603,559 less than budgeted revenues, a variance of 7.46%. The variance resulted from the District receiving less in local and intermediate source revenues than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and non-instructional programs functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested approximately \$22.35 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.33% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,028,893.

The original cost of the District's capital assets was approximately \$34.90 million. Governmental funds account for approximately \$34.58 million with the remainder of approximately \$0.32 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$7,921,742 at June 30, 2013 as compared to \$0 at June 30, 2014. The decrease in construction in progress is due to the Middle School renovation project that was completed during the year and capitalized as part of the District's capital asset listing.

	Governmental Activities		Business Type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 928,419	928,419	-	-	928,419	928,419	0.00%
Construction in progress	-	7,921,742	-	-	-	7,921,742	-100.00%
Buildings	20,333,907	12,455,688	-	-	20,333,907	12,455,688	63.25%
Land improvements	546,099	519,351	-	-	546,099	519,351	5.15%
Machinery and equipment	432,032	357,485	108,252	92,874	540,284	450,359	19.97%
Total	\$ 22,240,457	22,182,685	108,252	92,874	22,348,709	22,275,559	0.33%

Long-Term Debt

At June 30, 2014, the District had \$7,922,335 in revenue bonds payable, computer lease payable and other long-term debt outstanding. This represents an increase of 4.12% from last year. (See Figure A-7) More detailed information about the District's long-term debt is available in Note 5 to the financial statements.

At June 30, 2014, the District had \$6,725,000 of revenue bonds outstanding payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

The District had outstanding computer lease payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$361,223 at June 30, 2014.

The District had outstanding termination benefits payable of \$300,000 at June 30, 2014 payable from the Management Levy Fund.

The District also had a net OPEB liability of \$536,112 at June 30, 2014. Governmental activities account for \$532,788 of this total and business type activities account for the remaining \$3,324.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		District		
	June 30,		June 30,		June 30,		
	2014	2013	2014	2013	2014	2013	2013-14
Revenue bonds	\$ 6,725,000	7,045,000	-	-	6,725,000	7,045,000	-4.54%
Computer lease	361,223	-	-	-	361,223	-	100.00%
Bus lease	-	51,838	-	-	-	51,838	-100.00%
Termination benefits	300,000	62,796	-	-	300,000	62,796	377.74%
Net OPEB liability	532,788	446,689	3,324	2,787	536,112	449,476	19.27%
Total	\$ 7,919,011	7,606,323	3,324	2,787	7,922,335	7,609,110	4.12%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District anticipates a slight increase in student enrollment in the future based on enrollment of area preschools. The District is also anticipating a stronger economy than in prior years. This may lead to steady and increasing donations from various groups and miscellaneous income sources. With the implementation of the school's new online payment system in FY15, collections of past due accounts are expected to lessen and payments are expected to be more timely.
- With the implementation of GASB Statement No. 68 in FY15, the District is expected to book a liability on financial statements associated with the District's share of its IPERS liability. This is expected to negatively impact the District's financial statements.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mary Beth Fast, Business Manager/Board Secretary, Atlantic Community School District, 1100 Linn Street, Atlantic, Iowa, 50022.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,093,506	428,427	3,521,933
Receivables:			
Property tax:			
Delinquent	68,897	-	68,897
Succeeding year	6,271,327	-	6,271,327
Income surtax	903,328	-	903,328
Accounts	11,832	2,580	14,412
Due from other governments	759,761	14,972	774,733
Inventories	-	16,044	16,044
Capital assets, net of accumulated depreciation	22,240,457	108,252	22,348,709
TOTAL ASSETS	33,349,108	570,275	33,919,383
LIABILITIES			
Accounts payable	778,071	7,401	785,472
Salaries and benefits payable	1,401,403	-	1,401,403
Interest payable	768	-	768
Unearned revenue	-	10,005	10,005
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	355,000	-	355,000
Computer lease payable	118,384	-	118,384
Termination benefits payable	100,000	-	100,000
Portion due after one year:			
Revenue bonds payable	6,370,000	-	6,370,000
Computer lease payable	242,839	-	242,839
Termination benefits payable	200,000	-	200,000
Net OPEB liability	532,788	3,324	536,112
TOTAL LIABILITIES	10,099,253	20,730	10,119,983
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	6,271,327	-	6,271,327
NET POSITION			
Net investment in capital assets	15,515,457	108,252	15,623,709
Restricted for:			
Categorical funding	389,258	-	389,258
Debt service	645,420	-	645,420
Management levy purposes	88,311	-	88,311
Student activities	178,526	-	178,526
School infrastructure	331,458	-	331,458
Physical plant and equipment	44,861	-	44,861
Unrestricted	(214,763)	441,293	226,530
TOTAL NET POSITION	\$ 16,978,528	549,545	17,528,073

SEE NOTES TO FINANCIAL STATEMENTS.

**ATLANTIC 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	\$ 7,980,521	605,618	197,354	37,500	(7,140,049)	-	(7,140,049)
Special	2,430,723	253,129	194,360	-	(1,983,234)	-	(1,983,234)
Other	2,182,937	333,455	719,306	-	(1,130,176)	-	(1,130,176)
	<u>12,594,181</u>	<u>1,192,202</u>	<u>1,111,020</u>	<u>37,500</u>	<u>(10,253,459)</u>	<u>-</u>	<u>(10,253,459)</u>
Support services:							
Student	530,402	-	-	-	(530,402)	-	(530,402)
Instructional staff	1,405,064	-	-	-	(1,405,064)	-	(1,405,064)
Administration	1,568,477	-	-	-	(1,568,477)	-	(1,568,477)
Operation and maintenance of plant	1,759,327	-	-	12,296	(1,747,031)	-	(1,747,031)
Transportation	701,619	13,320	-	-	(688,299)	-	(688,299)
	<u>5,964,889</u>	<u>13,320</u>	<u>-</u>	<u>12,296</u>	<u>(5,939,273)</u>	<u>-</u>	<u>(5,939,273)</u>
Non-instructional programs:							
Food service operations	3,817	-	-	-	(3,817)	-	(3,817)
Long-term debt interest	231,139	-	-	-	(231,139)	-	(231,139)
Other expenditures:							
AEA flowthrough	568,211	-	568,211	-	-	-	-
Depreciation (unallocated)*	854,405	-	-	-	(854,405)	-	(854,405)
	<u>1,422,616</u>	<u>-</u>	<u>568,211</u>	<u>-</u>	<u>(854,405)</u>	<u>-</u>	<u>(854,405)</u>
Total governmental activities	<u>20,216,642</u>	<u>1,205,522</u>	<u>1,679,231</u>	<u>49,796</u>	<u>(17,282,093)</u>	<u>-</u>	<u>(17,282,093)</u>
Business type activities:							
Support services:							
Operation and maintenance of plant	17,409	-	-	-	-	(17,409)	(17,409)
Transportation	545	-	-	-	-	(545)	(545)
Non-instructional programs:							
Food service operations	915,976	375,329	558,758	-	-	18,111	18,111
Total business type activities	<u>933,930</u>	<u>375,329</u>	<u>558,758</u>	<u>-</u>	<u>-</u>	<u>157</u>	<u>157</u>
Total	<u>\$ 21,150,572</u>	<u>1,580,851</u>	<u>2,237,989</u>	<u>49,796</u>	<u>(17,282,093)</u>	<u>157</u>	<u>(17,281,936)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 5,636,991	-	5,636,991
Capital outlay					212,510	-	212,510
Income surtax					1,132,939	-	1,132,939
Statewide sales, services and use tax					1,241,804	-	1,241,804
Unrestricted state grants					7,701,818	-	7,701,818
Unrestricted investment earnings					408	107	515
Other general revenues					134,166	3,492	137,658
Total general revenues					<u>16,060,636</u>	<u>3,599</u>	<u>16,064,235</u>
Change in net position					(1,221,457)	3,756	(1,217,701)
Net position beginning of year					<u>18,199,985</u>	<u>545,789</u>	<u>18,745,774</u>
Net position end of year					<u>\$ 16,978,528</u>	<u>549,545</u>	<u>17,528,073</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor	Total
ASSETS					
Cash and pooled investments	\$ 993,404	62,118	1,080,615	602,948	2,739,085
Receivables:					
Property tax:					
Delinquent	60,524	2,470	-	5,903	68,897
Succeeding year	5,729,757	191,570	-	350,000	6,271,327
Income surtax	625,381	277,947	-	-	903,328
Accounts	9,800	-	-	2,032	11,832
Due from other governments	442,685	317,076	-	-	759,761
TOTAL ASSETS	\$ 7,861,551	851,181	1,080,615	960,883	10,754,230
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 294,253	5,345	434,427	44,046	778,071
Salaries and benefits payable	1,401,403	-	-	-	1,401,403
Total liabilities	1,695,656	5,345	434,427	44,046	2,179,474
Deferred inflows of resources:					
Unavailable revenue:					
Succeeding year property tax	5,729,757	191,570	-	350,000	6,271,327
Income surtax	625,381	277,947	-	-	903,328
Total deferred inflows of resources	6,355,138	469,517	-	350,000	7,174,655
Fund balances:					
Restricted for:					
Categorical funding	389,258	-	-	-	389,258
Debt service	-	-	646,188	-	646,188
Management levy purposes	-	-	-	388,311	388,311
Student activities	-	-	-	178,526	178,526
School infrastructure	-	331,458	-	-	331,458
Physical plant and equipment	-	44,861	-	-	44,861
Unassigned	(578,501)	-	-	-	(578,501)
Total fund balances	(189,243)	376,319	646,188	566,837	1,400,101
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,861,551	851,181	1,080,615	960,883	10,754,230

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC 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)	\$	1,400,101
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		22,240,457
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.		(768)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		354,421
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period and, therefore, is recognized as deferred inflows of resources in the governmental funds.		903,328
Long-term liabilities, including revenue bonds payable, leases payable, termination benefits payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(7,919,011)</u>
Net position of governmental activities(page 18)	\$	<u>16,978,528</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 5,916,544	524,628	-	500,743	6,941,915
Tuition	799,448	-	-	-	799,448
Other	314,238	49,976	37	350,118	714,369
State sources	8,664,210	1,241,908	-	247	9,906,365
Federal sources	592,563	-	-	-	592,563
Total revenues	16,287,003	1,816,512	37	851,108	18,954,660
EXPENDITURES:					
Current:					
Instruction:					
Regular	7,684,843	13,780	-	129,955	7,828,578
Special	2,375,872	-	-	-	2,375,872
Other	1,847,481	-	-	340,566	2,188,047
	11,908,196	13,780	-	470,521	12,392,497
Support services:					
Student	533,793	-	-	-	533,793
Instructional staff	623,852	783,686	-	-	1,407,538
Administration	1,548,816	3,750	-	29,420	1,581,986
Operation and maintenance of plant	1,267,600	476,903	-	52,821	1,797,324
Transportation	564,867	222,378	-	15,412	802,657
	4,538,928	1,486,717	-	97,653	6,123,298
Non-instructional programs:					
Food service operations	-	-	-	3,817	3,817
Capital outlay	-	793,722	-	-	793,722
Long-term debt:					
Principal	-	-	496,363	-	496,363
Interest and fiscal charges	-	-	230,540	-	230,540
	-	-	726,903	-	726,903
Other expenditures:					
AEA flowthrough	568,211	-	-	-	568,211
Total expenditures	17,015,335	2,294,219	726,903	571,991	20,608,448
Excess(Deficiency) of revenues over(under) expenditures	(728,332)	(477,707)	(726,866)	279,117	(1,653,788)
Other financing sources(uses):					
Transfer in	-	-	725,365	-	725,365
Transfer out	-	(725,365)	-	-	(725,365)
Sale of equipment	4,443	-	-	-	4,443
Computer lease proceeds	-	485,748	-	-	485,748
Total other financing sources(uses)	4,443	(239,617)	725,365	-	490,191
Change in fund balances	(723,889)	(717,324)	(1,501)	279,117	(1,163,597)
Fund balances beginning of year	534,646	1,093,643	647,689	287,720	2,563,698
Fund balances end of year	\$ (189,243)	376,319	646,188	566,837	1,400,101

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC 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) \$ (1,163,597)

*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 reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlay exceeded depreciation expense in the year as follows:

Capital outlay	\$ 1,069,803	
Depreciation expense	<u>(1,012,031)</u>	57,772

Proceeds from issuing long-term liabilities provide current financial resources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayments of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Issued	(485,748)	
Repaid	<u>496,363</u>	10,615

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.

(599)

The change in the Internal Service Funds is charged back against expenditures made for self-funded insurance at an entity-wide basis.

157,130

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds, and is recognized as deferred inflows of resource in the governmental funds.

40,525

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Termination benefits	(237,204)	
Other postemployment benefits	<u>(86,099)</u>	<u>(323,303)</u>

Change in net position of governmental activities(page 19) \$ (1,221,457)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Current assets:		
Cash and pooled investments	\$ 428,427	354,421
Accounts receivable	2,580	-
Due from other governments	14,972	-
Inventories	16,044	-
Total current assets	<u>462,023</u>	<u>354,421</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	108,252	-
TOTAL ASSETS	<u>570,275</u>	<u>354,421</u>
LIABILITIES		
Current liabilities:		
Accounts payable	7,401	-
Unearned revenue	10,005	-
Total current liabilities	<u>17,406</u>	<u>-</u>
Noncurrent liabilities:		
Net OPEB liability	3,324	-
TOTAL LIABILITIES	<u>20,730</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	108,252	-
Unrestricted	441,293	354,421
TOTAL NET POSITION	<u>\$ 549,545</u>	<u>354,421</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 375,329	-
Miscellaneous	3,492	1,726,743
TOTAL OPERATING REVENUES	378,821	1,726,743
OPERATING EXPENSES:		
Instruction:		
Regular:		
Benefits	-	75,856
Support services:		
Administration:		
Services	-	1,493,784
Operation and maintenance of plant:		
Services	16,629	-
Supplies	780	-
Total operation and maintenance of plant	17,409	-
Transportation:		
Supplies	545	-
Total support services	17,954	1,493,784
Non-instructional programs:		
Food service operations:		
Salaries	343,455	-
Benefits	74,109	-
Services	27,481	-
Supplies	451,944	-
Depreciation	16,862	-
Other	2,125	-
Total non-instructional programs	915,976	-
TOTAL OPERATING EXPENSES	933,930	1,569,640
OPERATING INCOME(LOSS)	(555,109)	157,103
NON-OPERATING REVENUES:		
State sources	7,344	-
Federal sources	551,414	-
Interest on investments	107	27
TOTAL NON-OPERATING REVENUES	558,865	27
Change in net position	3,756	157,130
Net position beginning of year	545,789	197,291
Net position end of year	\$ 549,545	354,421

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 372,696	-
Cash received from miscellaneous sources	3,492	1,726,743
Cash payments to employees for services	(417,027)	(1,569,640)
Cash payments to suppliers for goods or services	(466,851)	-
Net cash provided by(used in) operating activities	<u>(507,690)</u>	<u>157,103</u>
Cash flows from non-capital financing activities:		
State grants received	7,344	-
Federal grants received	490,544	-
Net cash provided by non-capital financing activities	<u>497,888</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(32,240)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>107</u>	<u>27</u>
Net increase(decrease) in cash and cash equivalents	(41,935)	157,130
Cash and cash equivalents beginning of year	<u>470,362</u>	<u>197,291</u>
Cash and cash equivalents end of year	<u>\$ 428,427</u>	<u>354,421</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (555,109)	157,103
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities used	45,898	-
Depreciation	16,862	-
Increase in inventories	(6,460)	-
Increase in accounts receivable	(2,580)	-
Decrease in accounts payable	(6,785)	-
Decrease in unearned revenue	(53)	-
Increase in other postemployment benefits	537	-
Net cash provided by(used in) operating activities	<u>\$ (507,690)</u>	<u>157,103</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$45,898.

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2014

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 152,886</u>
LIABILITIES	
Accounts payable	<u>250</u>
NET POSITION	
Restricted for scholarships	<u>\$ 152,636</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2014

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Contributions	\$ 1,500
Interest	58
Total additions	<u>1,558</u>
Deductions:	
Regular instruction:	
Scholarships awarded	<u>4,250</u>
Change in net position	(2,692)
Net position beginning of year	<u>155,328</u>
Net position end of year	<u>\$ 152,636</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Note 1. Summary of Significant Accounting Policies

The Atlantic Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Atlantic, Iowa, and the predominate agricultural territory in Cass, Audubon and Pottawattamie 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, Atlantic 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 Atlantic 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 Cass County Assessors' Conference Board.

B. Basis of Presentation

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

The Statement of Net Position presents the District's nonfiduciary assets, 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 consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District reports the following major proprietary fund:

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

The District reports the following other proprietary fund:

The Internal Service Fund is used to account for the partially self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Position and the Statement of Activities.

The District also reports a fiduciary fund which focuses on net position and changes in net position. The District's fiduciary fund is the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, and claims and judgments, 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 both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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 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.

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	\$ 1,500
Buildings	1,500
Land improvements	1,500
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Land improvements	20 years
Intangibles	5-10 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July and August have been accrued as liabilities.

Unearned Revenues - Unearned revenue is money 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.

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 year. 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of unspent grant proceeds as well as property tax receivables and other 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.

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. During the year ended June 30, 2014, expenditures in the instruction and non-instructional programs functional areas exceeded the amounts budgeted.

Note 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 \$199,639 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 & Poor's Financial Services.

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Physical Plant and Equipment Levy	\$ 53,524
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	671,841
Total		\$ 725,365

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for the principal and interest payment on the District's school bus lease indebtedness.

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, as well as the District's computer lease indebtedness.

Note 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	\$ 928,419	-	-	928,419
Construction in progress	7,921,742	638,763	8,560,505	-
Total capital assets not being depreciated	8,850,161	638,763	8,560,505	928,419
Capital assets being depreciated:				
Buildings	20,597,131	8,647,368	-	29,244,499
Land improvements	1,656,729	112,004	-	1,768,733
Machinery and equipment	2,460,744	232,173	56,078	2,636,839
Total capital assets being depreciated	24,714,604	8,991,545	56,078	33,650,071
Less accumulated depreciation for:				
Buildings	8,141,443	769,149	-	8,910,592
Land improvements	1,137,378	85,256	-	1,222,634
Machinery and equipment	2,103,259	157,626	56,078	2,204,807
Total accumulated depreciation	11,382,080	1,012,031	56,078	12,338,033
Total capital assets being depreciated, net	13,332,524	7,979,514	-	21,312,038
Governmental activities capital assets, net	\$ 22,182,685	8,618,277	8,560,505	22,240,457

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 291,935	32,240	6,110	318,065
Less accumulated depreciation	199,061	16,862	6,110	209,813
Business type activities capital assets, net	<u>\$ 92,874</u>	<u>15,378</u>	<u>-</u>	<u>108,252</u>

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 16,834
Other	2,848

Support services:

Administration	1,976
Operation and maintenance of plant	10,669
Transportation	125,299
	<u>157,626</u>

Unallocated depreciation	<u>854,405</u>
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Total governmental activities depreciation expense	<u>\$ 1,012,031</u>
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Business type activities:

Food service operations	<u>\$ 16,862</u>
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Note 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	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 7,045,000	-	320,000	6,725,000	355,000
Computer Lease	-	485,748	124,525	361,223	118,384
Bus Leases	51,838	-	51,838	-	-
Termination Benefits	62,796	300,000	62,796	300,000	100,000
Net OPEB Liability	446,689	86,099	-	532,788	-
Total	<u>\$ 7,606,323</u>	<u>871,847</u>	<u>559,159</u>	<u>7,919,011</u>	<u>573,384</u>
<u>Business type activities:</u>					
Net OPEB Liability	<u>\$ 2,787</u>	<u>537</u>	<u>-</u>	<u>3,324</u>	<u>-</u>

Revenue Bonds Payable

Details of the District's June 30, 2014 revenue bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of August 1, 2011			
	Interest Rates	Principal	Interest	Total
2015	1.50	% \$ 355,000	223,355	578,355
2016	1.75	360,000	218,030	578,030
2017	2.00	365,000	211,730	576,730
2018	2.40	370,000	204,430	574,430
2019	2.70	380,000	195,550	575,550
2020-2024	3.00-3.65	2,080,000	798,395	2,878,395
2025-2029	3.85-4.25	2,495,000	387,105	2,882,105
2030	4.25	320,000	6,800	326,800
Total		\$ 6,725,000	2,245,395	8,970,395

The District has pledged future statewide sales, services and use tax revenues to repay the \$7,660,000 of bonds issued in August 2011. The bonds were issued for the purpose of financing renovations to the Middle School. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. 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 47% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$8,970,395. For the current year, \$320,000 of principal and \$227,355 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$1,241,804.

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

- a) \$578,390 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. The reserve account is recorded as part of the Debt Service Fund.
- b) Monthly transfers 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.

Computer Lease Payable

Details of the District’s June 30, 2014 computer payable, which is paid from the Capital Projects: Statewide Sales Services and Use Tax Fund are as follows:

Year Ending June 30,	Computer Lease May 15, 2014				
	Interest Rates	Principal	Interest	Total	
2015	1.70	% \$ 118,384	6,141	12,455	
2016	1.70	120,396	4,129	124,525	
2017	1.70	122,443	2,082	124,525	
Total		<u>\$ 361,223</u>	<u>12,352</u>	<u>261,505</u>	

Termination Benefits Payable

In December 2013, the District offered a one-time voluntary early retirement plan for one year to its full-time certified employees. Eligible employees must have attained the age of fifty-seven on or before August 15th of the year in which they wish to retire and had completed at least fifteen years of full-time contracted service. Employees completed an application which was required to be approved by the Board of Education.

Benefits to be paid to prospective early retirees were calculated by the lesser of \$25,000 or the difference between the employee’s salary at the time of retirement excluding payments not included in the salary schedule and the BA Step 7 rate of pay in effect in the year of retirement. Retirees could elect to continue their existing health insurance coverage with the District as long as monthly premiums were paid to the District’s Central Office (before the District makes the premium payment) and are permitted to continue coverage by the District’s insurer.

At June 30, 2014, the District has obligations to twelve participants with a total liability of \$300,000. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$62,796.

Note 6. 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 contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$963,935, \$864,980 and \$757,868 respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees, retirees and their spouses. There are 147 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Principal. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 105,307
Interest on net OPEB obligation	11,237
Adjustment to annual required contribution	(26,450)
Annual OPEB cost	<u>90,094</u>
Contributions made	<u>(3,458)</u>
Increase in net OPEB obligation	86,636
Net OPEB obligation - beginning of year	<u>449,476</u>
Net OPEB obligation - end of year	<u><u>\$ 536,112</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed \$3,458 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 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 190,186	4.70%	\$ 370,642
2013	85,490	7.79%	449,476
2014	90,094	3.84%	536,112

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$0.658 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$0.658 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8.291 million, and the ratio of the UAAL to the covered payroll was 7.9%. 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 healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed from the aging cost assumptions from the 2006 Society of Actuaries.

Projected claim costs of the medical plan are \$609 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

Atlantic 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.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$568,211 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2014, expenditures in the instruction and non-instructional programs functional areas exceeded the amounts budgeted.

Note 11. Deficit Fund Balance/Net Position

At June 30, 2014, the District had a deficit unassigned fund balance of \$578,501 in the General Fund, and a total deficit General Fund balance of \$189,243. The District also had a deficit unrestricted net position of \$214,763 in the Governmental Activities.

Note 12. Building Leases

The District leases a building from The Car Guys, LLC, of Atlantic, Iowa for the District's EOC facility on a monthly basis. Monthly lease payments are \$4,271.

The District leases two portable buildings from Rob Prullhiere, one for \$10,500 a year, and the second for \$30,500 a year.

Note 13. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
Home School Assistance Program	\$ 8,030
Gifted and Talented Programs	23,171
Beginning Administrator Mentoring and Induction Program	1,500
Iowa Early Intervention Block Grant	620
Four-year-old Preschool State Aid	178,691
Successful Progression for Early Readers	23,561
Professional Development for Model Core Curriculum	67,329
Professional Development	76,055
Teacher Leadership Grant	10,301
Total	<u>\$ 389,258</u>

Note 14. Reconciliation of Governmental Fund Balances to Net Position

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

	<u>Net investment in Capital Assets</u>	<u>Management Levy</u>	<u>Debt Service</u>	<u>Unassigned/ Unrestricted</u>
Fund balance (Exhibit C)	\$ -	388,311	646,188	(578,501)
Invested in capital assets, net of accumulated depreciation	22,240,457	-	-	-
Revenue bond capitalized indebtedness	(6,725,000)	-	-	-
Computer lease indebtedness	-	-	-	(361,223)
Termination benefits	-	(300,000)	-	-
Accrued interest payable	-	-	(768)	-
Income surtax	-	-	-	903,328
Internal service fund	-	-	-	354,421
Net OPEB liability	-	-	-	(532,788)
Net position (Exhibit A)	<u>\$ 15,515,457</u>	<u>88,311</u>	<u>645,420</u>	<u>(214,763)</u>

Note 15. 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.

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC 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	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 8,455,732	378,928	8,834,660	8,920,392	8,920,392	(85,732)
Intermediate sources	-	-	-	3,000,000	3,000,000	(3,000,000)
State sources	9,906,365	7,344	9,913,709	8,720,513	8,720,513	1,193,196
Federal sources	592,563	551,414	1,143,977	855,000	855,000	288,977
Total revenues	18,954,660	937,686	19,892,346	21,495,905	21,495,905	(1,603,559)
Expenditures/Expenses:						
Instruction	12,392,497	-	12,392,497	10,450,000	10,450,000	(1,942,497)
Support services	6,123,298	17,954	6,141,252	5,275,000	7,499,317	1,358,065
Non-instructional programs	3,817	915,976	919,793	900,000	900,000	(19,793)
Other expenditures	2,088,836	-	2,088,836	5,076,282	5,076,282	2,987,446
Total expenditures/expenses	20,608,448	933,930	21,542,378	21,701,282	23,925,599	2,383,221
Excess(Deficiency) of revenues over(under) expenditures/expenses	(1,653,788)	3,756	(1,650,032)	(205,377)	(2,429,694)	779,662
Other financing sources, net	490,191	-	490,191	-	-	490,191
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(1,163,597)	3,756	(1,159,841)	(205,377)	(2,429,694)	1,269,853
Balances beginning of year	2,563,698	545,789	3,109,487	6,829,759	6,829,759	(3,720,272)
Balances end of year	\$ 1,400,101	549,545	1,949,646	6,624,382	4,400,065	(2,450,419)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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 Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$2,224,317.

During the year ended June 30, 2014, expenditures in the instruction and non-instructional programs functional areas exceeded the amounts budgeted.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(IN THOUSANDS)
REQUIRED SUPPLEMENTARY INFORMATION

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2009	July 1, 2008	\$ -	\$ 795	\$ 795	0.00%	\$ 6,737	11.8%
2010	July 1, 2008	-	795	795	0.00%	9,207	8.6%
2011	July 1, 2008	-	795	795	0.00%	7,362	10.8%
2012	July 1, 2011	-	719	719	0.00%	8,763	8.2%
2013	July 1, 2011	-	703	703	0.00%	8,324	8.4%
2014	July 1, 2011	-	658	658	0.00%	8,291	7.9%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

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

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
ASSETS			
Cash and pooled investments	\$ 384,332	218,616	602,948
Receivables:			
Property tax:			
Delinquent	5,903	-	5,903
Succeeding year	350,000	-	350,000
Accounts	-	2,032	2,032
TOTAL ASSETS	\$ 740,235	220,648	960,883
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 1,924	42,122	44,046
Deferred inflows of resources:			
Unavailable revenue:			
Succeeding year property tax	350,000	-	350,000
Fund balances:			
Restricted for:			
Management levy purposes	388,311	-	388,311
Student activities	-	178,526	178,526
Total fund balances	388,311	178,526	566,837
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 740,235	220,648	960,883

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 500,743	-	500,743
Other	11,042	339,076	350,118
State sources	247	-	247
Total revenues	512,032	339,076	851,108
EXPENDITURES:			
Current:			
Instruction:			
Regular	129,955	-	129,955
Other	-	340,566	340,566
Support services:			
Administration	29,420	-	29,420
Operation and maintenance of plant	52,821	-	52,821
Transportation	15,412	-	15,412
Non-instructional programs:			
Food service operations	3,817	-	3,817
Total expenditures	231,425	340,566	571,991
Change in fund balances	280,607	(1,490)	279,117
Fund balances beginning of year	107,704	180,016	287,720
Fund balances end of year	\$ 388,311	178,526	566,837

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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	\$ 17,827	44,291	62,118
Receivables:			
Property tax:			
Delinquent	-	2,470	2,470
Succeeding year	-	191,570	191,570
Income surtax	-	277,947	277,947
Due from other governments	317,076	-	317,076
TOTAL ASSETS	\$ 334,903	516,278	851,181
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 3,445	1,900	5,345
Deferred inflows of resources:			
Unavailable revenue:			
Succeeding year property tax	-	191,570	191,570
Income surtax	-	277,947	277,947
Total deferred inflows of resources	-	469,517	469,517
Fund balances:			
Restricted for:			
School infrastructure	331,458	-	331,458
Physical plant and equipment	-	44,861	44,861
Total fund balances	331,458	44,861	376,319
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 334,903	516,278	851,181

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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	\$ -	524,628	524,628
Other	37,622	12,354	49,976
State sources	1,241,804	104	1,241,908
Total revenues	<u>1,279,426</u>	<u>537,086</u>	<u>1,816,512</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	-	13,780	13,780
Support services:			
Instructional staff	783,686	-	783,686
Administration	1,000	2,750	3,750
Operation and maintenance of plant	144,103	332,800	476,903
Transportation	18,000	204,378	222,378
Capital outlay	744,892	48,830	793,722
Total expenditures	<u>1,691,681</u>	<u>602,538</u>	<u>2,294,219</u>
Deficiency of revenues under expenditures	(412,255)	(65,452)	(477,707)
Other financing sources(uses):			
Transfer out	(671,841)	(53,524)	(725,365)
Computer lease proceeds	485,748	-	485,748
Total other financing sources(uses)	<u>(186,093)</u>	<u>(53,524)</u>	<u>(239,617)</u>
Change in fund balances	(598,348)	(118,976)	(717,324)
Fund balances beginning of year	<u>929,806</u>	<u>163,837</u>	<u>1,093,643</u>
Fund balances end of year	<u>\$ 331,458</u>	<u>44,861</u>	<u>376,319</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 5

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,974	3,651	3,992	1,633
Vocal Music	20,640	17,298	19,493	18,445
High School Band	4,283	24,578	25,111	3,750
Musical	2,011	2,537	3,254	1,294
Basketball	20,335	35,285	35,246	20,374
Football	31,768	16,847	13,038	35,577
Baseball	5,448	10,174	13,606	2,016
Track	3,100	11,119	13,239	980
Tennis	306	1,314	-	1,620
Golf	2,518	3,400	3,049	2,869
Wrestling	2,521	16,151	16,931	1,741
High School Volleyball	5,065	6,464	7,098	4,431
National Honor Society	2,812	-	530	2,282
Student Council	1,216	3,091	3,278	1,029
FFA	12,085	25,087	30,347	6,825
MS Activities	10,830	39,636	33,311	17,155
Yearbook	7,422	24,875	18,006	14,291
Spanish Club	6,749	4,774	11,523	-
Cheerleaders	10,813	8,057	8,358	10,512
Pride	1,325	-	-	1,325
Jr Class Prom	4,849	3,674	5,287	3,236
General Activity	3,819	72,073	60,509	15,383
Camp Courageous	3,547	-	1,800	1,747
Atlantic Athletic Foundation	14,580	8,991	13,560	10,011
Total	<u>\$ 180,016</u>	<u>339,076</u>	<u>340,566</u>	<u>178,526</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 6,941,915	7,816,196	7,810,080	7,391,052	6,871,584	6,475,866	5,976,105	5,657,116	5,519,381	4,636,402
Tuition	799,448	875,803	839,800	1,050,609	1,144,334	1,136,351	1,034,146	1,013,833	905,598	804,293
Other	714,369	725,951	813,068	854,453	654,946	617,852	914,129	644,158	858,431	499,693
State sources	9,906,365	8,219,651	8,231,553	7,574,184	6,901,842	7,682,348	7,348,171	7,006,302	6,380,868	6,015,939
Federal sources	592,563	667,549	585,572	983,670	1,539,835	743,984	441,246	403,571	438,369	516,049
Total	\$ 18,954,660	18,305,150	18,280,073	17,853,968	17,112,541	16,656,401	15,713,797	14,724,980	14,102,647	12,472,376
Expenditures:										
Instruction:										
Regular	\$ 7,828,578	7,211,245	6,807,422	6,206,164	6,176,665	6,252,296	5,893,497	5,717,955	5,410,666	5,000,500
Special	2,375,872	2,776,536	2,156,126	2,296,607	2,258,358	2,622,408	2,469,704	2,160,567	1,921,407	1,502,442
Other	2,188,047	2,157,201	1,829,587	1,721,124	1,906,405	1,598,669	1,597,619	896,025	831,840	1,123,659
Support services:										
Student	533,793	505,204	348,426	417,724	458,038	426,546	380,348	375,303	387,154	306,622
Instructional staff	1,407,538	785,184	874,448	630,764	608,228	594,531	706,069	597,916	578,921	455,264
Administration	1,581,986	1,521,203	1,537,407	1,391,061	1,458,125	1,453,341	1,316,769	1,232,323	1,100,090	1,011,689
Operation and maintenance										
of plant	1,797,324	1,688,268	1,750,613	1,307,329	1,230,056	1,260,802	1,217,498	1,198,317	1,193,207	1,056,285
Transportation	802,657	741,014	543,840	598,783	579,645	712,917	531,663	521,875	512,138	431,331
Central support				-	-	-	-	-	-	4,745
Non-instructional programs	3,817	3,893	371	11,423	12,246	12,644	12,398	10,133	8,681	20,778
Capital outlay	793,722	2,779,249	4,881,579	2,116,793	2,464,044	2,095,735	108,805	379,086	612,430	194,372
Long-term debt:										
Principal	496,363	739,387	1,039,236	742,666	681,151	615,000	595,000	565,000	545,000	525,000
Interest and other charges	230,540	239,586	231,491	24,255	117,218	130,573	155,116	178,422	200,904	222,560
Other expenditures:										
AEA flow-through	568,211	541,501	525,725	581,707	569,666	518,992	476,641	456,669	410,189	406,718
Total	\$ 20,608,448	21,689,471	22,526,271	18,046,400	18,519,845	18,294,454	15,461,127	14,289,591	13,712,627	12,261,965

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 14	\$ 75,187
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 14	414,371 *
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 14	37,222
			<u>526,780</u>
TEAM NUTRITION GRANT	10.574	FY 14	457
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 14	24,177
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	6102-G	278,190
TITLE I SCHOOLS IN NEED OF ASSISTANCE	84.010	FY 14	14,704
			<u>292,894</u>
ADVANCE PLACEMENT PROGRAM	84.330	FY 14	45
RURAL EDUCATION (REAP)	84.358	FY 14	26,444
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 14	56,007
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 14	8,091
GREEN HILLS AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 14	71,672
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 14	12,046
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF EDUCATION:			
DEVELOPMENTAL DISABILITIES PROJECTS OF NATIONAL SIGNIFICANCE (MODEL EMPLOYMENT TRANSITION)	93.631	FY 14	2,506
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTATNT HEALTH PROBLEMS (AIDS EDUCATION)	93.938	FY 14	170
TOTAL			<u>\$ 1,021,289</u>

* Includes \$45,898 of non-cash awards.

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

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 Atlantic 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 Atlantic 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 13, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Atlantic 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

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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 IV of the accompanying Schedule of Findings and Questioned Costs.

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

Atlantic Community School District's Responses to Findings

Atlantic Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Atlantic 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 Atlantic 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 13, 2015
Newton, Iowa

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

To the Board of Education of Atlantic Community School District:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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Report on Internal Control Over Compliance

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2015
Newton, Iowa

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

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was noted.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - **Child Nutrition Cluster:**
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Atlantic Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Purchase Orders - We noted during our audit multiple instances of purchase orders dated after the invoice date on items purchased from Menards with a District credit card.

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

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

Response - District is implementing additional credit card training for all employees who use school credit cards to ensure purchase order process is followed.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

No material weaknesses in internal control over major programs were noted.

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

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-14 Certified Budget - District disbursements for the year ended June 30, 2014 exceeded the amounts budgeted in the instructional and non-instructional programs functional areas.

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

Response - The District will monitor the certified budgeted amounts and amend the budget as necessary in the future.

Conclusion - Response accepted.

IV-B-14 Questionable Disbursements - We noted during our audit instances of disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Flowers for Funerals: Checks #28184 and #28678 were issued to Hy-Vee and contained flowers which were given in sympathy to District volunteers who passed away during the fiscal year.

Recommendation - Article III, Section 31 of the Constitution of Iowa provides that public funds may only be spent for the public benefit. Expenditures in these "gray" areas should be evaluated and determined through the criteria of "public purpose" and the Board should document the public purpose served including how the public benefits through the expenditure of public funds for the particular purpose such as gift awards to staff. Documentation should be in the Board minutes and/or through established Board policy. The decision and documentation should be in place prior to spending the public funds. Keep in mind, this decision and related documentation may not eliminate the shadow of doubt surrounding this type of expenditure. It simply establishes the District's consideration and justification for the expenditure. The District should develop a public purpose document stating the public benefit derived from giving flowers or other items to outside individuals as sympathy of loss.

Response - Administrators have been made aware of this violation and HyVee receipts are being individual entered in the Web Link system by the appropriate staff, with a secondary approval coming from the business manager.

Conclusion - Response accepted.

Gift Cards: We noted during our audit that the District purchased a gift card from Subway, Taco Bell, and Burger King to be given as PBIS prizes in the Student Activity Fund. Giving cash or gift cards does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - Gift cards are not an appropriate District purchase since Iowa Code Section 279.29 requires districts to "audit and allow" all bills and the gift card does not provide the board with the ability to perform the required function of approval of the final purchase. The District should refrain from purchasing gift cards to be given as prizes, gifts or incentives.

Response - Training for supervisors and administrators has addressed the use of gift cards in the District and they will not be purchased in the future.

Conclusion - Response accepted.

IV-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. However, we noted during our audit an instance of employees purchasing meals while on District business with District credit cards but failing to turn in a detailed receipt of the purchase to the District office. Board policy 401.10 states that "Employees and officers using a school district credit card must submit a detailed receipt in addition to a credit card receipt indicating the date, purpose and nature of the expense for each claim item. Failure to provide a proper receipt will make the employee responsible for expenses incurred. In exceptional circumstances, the superintendent or board may allow a claim without proper receipt. Written documentation explaining the exceptional circumstances is maintained as part of the school district's record of the claim."

Recommendation - The District should review procedures in place when employees use the District's credit card for expenses. Detailed receipts should be turned into the District central office for processing travel and all expenses made with District credit cards. If detailed receipts are not available, the cost should be borne by the employee in accordance with District policy.

Response - Credit card training for all employees that use credit cards is being implemented by the District to ensure all purchases are supported by detailed receipts.

Conclusion - Response accepted.

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

Name, Title and Business Connection	Transaction Description	Amount
Barb Olson, Teacher Spouse owns Olson Fuel Supply, Inc.	Fuel (per bid)	\$101,298
DeeAnn Schreiner, Food Service Director Spouse is manager for Reinhart Food Service	Food/Supplies	\$63,641
Cathy Knuth, Teacher Spouse is manager for Akin Building Center	Repair supplies	\$10,438

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouses of employees do not appear to create a conflict of interest.

IV-E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

IV-G-14 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was understated by one student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management 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.

IV-H-14 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-14 Deposits and Investments - 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.

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

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

IV-L-14 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 following information includes the amounts the District reported in the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2014 audit.

Beginning Balance		\$ 929,806
Revenues:		
Statewide sales, services and use tax	\$ 1,241,804	
Other local revenues	37,622	
Computer lease proceeds	485,748	<u>1,765,174</u>
		2,694,980
Expenditures/transfer out:		
School infrastructure construction	\$ 744,892	
Equipment	894,077	
Other	52,712	
Transfer to another fund:		
Debt service	<u>671,841</u>	<u>2,363,522</u>
Ending Balance		<u><u>\$ 331,458</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 of 423F of the Code of Iowa.

IV-M-14 Financial Condition - The District had the following deficit balances at June 30, 2014. The District had a deficit unassigned fund balance of \$578,501 and a total deficit fund balance of \$189,243 in the General Fund. The District also had a deficit unrestricted net position in the District's Governmental Activities of \$214,763.

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

Response - The District has taken steps to closely monitor the spending authority and cash balances of all funds. Planned cuts to the General Fund to correct the deficit are in progress.

Conclusion - Response accepted.

IV-N-14 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended. 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 the students established under Iowa Administrative Code 281- 12.6(1).

Scholarships: We noted scholarships awarded from National Honor Society and Student Council accounts within the Student Activity Fund. Money in the Student Activity Fund is considered to be public funds and is inappropriate to be given to individuals. Monies given out as scholarships should be fundraised for that specific purpose. It would be inappropriate for an activity club to arbitrarily use leftover funds and award them as a scholarship to students.

Recommendation - If the District plans on awarding scholarships in the future the District should recording the revenues and expenses in the District's Private Purpose Trust Fund.

Response - The District is closely scrutinizing donations that are received to determine their appropriate use, whether for materials or scholarships and will account for them in the proper fund.

Conclusion - Response accepted.