

**DOWS COMMUNITY SCHOOL DISTRICT
DOWS, IOWA**

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

YEAR ENDED JUNE 30, 2014

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-4
Management's Discussion and Analysis		5-15
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Position	A	16
Statement of Activities	B	17-18
Governmental Fund Financial Statements:		
Balance Sheet	C	19
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements:		
Statement of Net Position	G	23
Statement of Revenues, Expenses and Changes in Fund Net Position	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	J	26
Statement of Changes in Fiduciary Net Position	K	27
Notes to Financial Statements		28-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Funds		42-43
Notes to Required Supplementary Information – Budgetary Reporting		44
Schedule of Funding Progress for the Retiree Health Plan		45
Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	47

Table of Contents (continued)

		<u>Page</u>
Capital Project Accounts:		
Combining Balance Sheet	3	48
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	50
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	6	51-52
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		53-55
Schedule of Findings		56-59

Dows Community School District
Dows, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
-------------	--------------	---------------------

Board of Education

Marty Osterman	President	2014
Corey Jacobson	Board Member	2014
Kristi Hinkle	Board Member	2014
Betty Ellis	Board Member	2014
Cindy Ingelbritson	Board Member	2014

School Officials

Robert Olson	Superintendent	Indefinite
Anita Frye	District Secretary/Treasurer and Business Manager	Indefinite
Rick Engel	Attorney	Indefinite

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

Independent Auditor's Report

To the Board of Education of
Dows 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 Dows Community School District, Dows, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dows 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 5 through 15 and 42 through 45 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 Dows 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 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2015 on our consideration of Dows Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Dows Community School District's internal control over financial reporting and compliance.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 17, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dows 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 from \$1,328,970 in fiscal year 2013 to \$1,605,440 in fiscal year 2014, while General Fund expenditures increased from \$1,598,641 in fiscal year 2013 to \$1,743,466 in fiscal year 2014. The District's General Fund balance decreased from \$116,919 at the end of fiscal year 2013 to \$(21,107) at the end of fiscal year 2014, a 118% decrease.
- The increase in expenditures and decrease in revenue and using reserves is unsustainable. The District has initiated discussion with sharing partner, Clarion-Goldfield to pursue reorganization beginning the FY2015 school year. The reorganization vote was scheduled September 10, 2013 and was approved by the voters in both districts. Had the reorganization vote failed, the District would have proceeded with dissolution.
- With anticipated reorganization and the likelihood of unemployment of staff, the district increased the management fund balance to fund unemployment benefits.

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 Dows 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 Dows Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds. The remaining statements provide information about activities for which Dows Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

Figure A-1
Dows Community School District Annual Financial Report

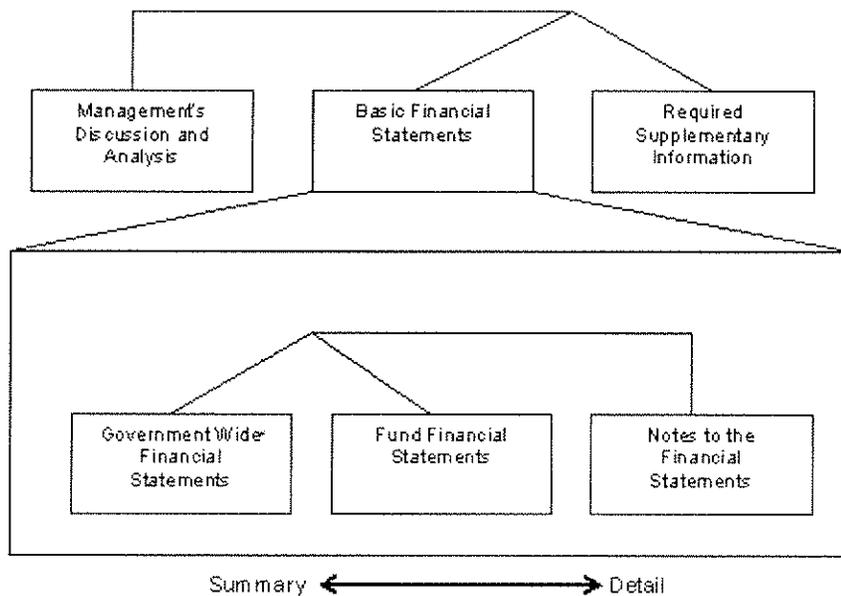


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	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, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

In the government-wide financial statements, the District’s activities are divided into 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 it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

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

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

The required financial statements for 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 Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The District's Enterprise Fund is the School Nutrition Fund.

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships and other items for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants as a fiscal agent.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Position
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-2014
Current and other assets	\$ 1,713	2,566	---	2	1,713	2,568	-33.3%
Capital assets	462	506	---	1	462	507	-8.9%
Total assets	<u>2,175</u>	<u>3,072</u>	<u>---</u>	<u>3</u>	<u>2,175</u>	<u>3,075</u>	<u>-29.3%</u>
Long-term liabilities	15	8	---	---	15	8	87.5%
Other liabilities	136	1,133	15	---	151	1,133	-86.7%
Total liabilities	<u>151</u>	<u>1,141</u>	<u>15</u>	<u>---</u>	<u>166</u>	<u>1,141</u>	<u>-85.5%</u>
Net position:							
Net investment in							
capital assets	462	506	---	1	462	507	-8.9%
Restricted	1,136	940	---	---	1,136	940	20.9%
Unrestricted	412	485	(15)	(2)	397	483	-17.8%
Total net position	<u>\$ 2,010</u>	<u>1,931</u>	<u>(15)</u>	<u>(1)</u>	<u>1,995</u>	<u>1,930</u>	<u>3.4%</u>

The District's total net position increased 3.4%, or approximately \$65,000 from the prior year. A portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$196,000 or 21% over the prior year. The increase was primarily a result of an increase in unspent capital projects funds.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$86,000 or 18%. This reduction in unrestricted net position was primarily a result of the District's expenditures exceeding revenues.

Although Iowa school financial operates using an unspent authority, cash balances provide the means to pay bills. At the present trend of revenue to expenditures, the district will run out of cash at the end of FY14. It was the recommendation of the District to reorganize one-year early of the anticipated ten-year sharing agreement.

The Department of Management limits the levels of cash on hand to no more than 20% of District revenue and using the cash reserve levy to back spending authority with cash was not an option. At the conclusion of FY14, the District would be allowed to levy cash. Spending authority was decreasing rapidly and cash would only be a short-term strategy. Overspending authority is illegal in the state of Iowa and carries with it a misdemeanor charge against the Superintendent. Depleting authority and overspending would have occurred if Dows CSD would remain an independent school district in FY15.

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

Figure A-4
Changes in Net Position
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-2014
Revenues:							
Program revenues:							
Charges for service	\$ 328	23	7	12	335	35	857.1%
Operating grants, contributions and restricted interest	207	252	27	34	234	286	-18.2%
General revenues:							
Property tax	1,047	1,017	---	---	1,047	1,017	2.9%
Statewide sales, services and use tax	110	112	---	---	110	112	-1.8%
Unrestricted state grants	303	300	---	---	303	300	1.0%
Unrestricted investment earnings	3	2	---	---	3	2	50.0%
Other	33	3	---	---	33	3	1000.0%
Total revenues	<u>2,031</u>	<u>1,709</u>	<u>34</u>	<u>46</u>	<u>2,065</u>	<u>1,755</u>	<u>17.7%</u>
Program expenses:							
Instruction	1,213	1,000	---	---	1,213	1,000	21.3%
Support services	626	563	---	---	626	563	11.2%
Non-instructional programs	---	---	48	54	48	54	11.1%
Other expenses	113	167	---	---	113	167	-32.3%
Total expenses	<u>1,952</u>	<u>1,730</u>	<u>48</u>	<u>54</u>	<u>2,000</u>	<u>1,784</u>	<u>12.1%</u>
Change in net position before transfers	79	(21)	(14)	(8)	65	(29)	324.1%
Transfers	---	---	---	---	---	---	0.0%
Increase (decrease) in net position	79	(21)	(14)	(8)	65	(29)	324.1%
Net position beginning of year	<u>1,931</u>	<u>1,952</u>	<u>(1)</u>	<u>7</u>	<u>1,930</u>	<u>1,959</u>	<u>1.5%</u>
Net position end of year	\$ <u>2,010</u>	<u>1,931</u>	<u>(15)</u>	<u>(1)</u>	<u>1,995</u>	<u>1,930</u>	<u>3.4%</u>

In fiscal year 2014, property tax and unrestricted state grants accounted for 66.5% of governmental activities revenue while charges for service and operating grants and contributions account for all of the revenue from business type activities.

The District's total revenues were approximately \$2.1 million, of which approximately \$2 million was for governmental activities and less than \$1 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 17.7% increase in revenues and a 12.1% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$2,030,840 and expenses were \$1,952,345 for the year ended June 30, 2014.

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

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-2014	2014	2013	Change 2013-2014
Instruction	\$ 1,213	1,000	21.4%	837	781	7.2%
Support services	626	563	11.2%	525	563	-6.7%
Non-instructional programs	---	---	0.0%	---	---	0.0%
Other expenses	113	167	32.3%	56	111	49.5%
Total	\$ 1,952	1,730	12.8%	1,418	1,455	0.0%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$327,914.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$206,820.
- The net cost of governmental activities was financed with \$1,157,454 in property and other taxes and \$303,415 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2014 were \$34,002, representing a 25.5% decrease over the prior year, while expenses totaled \$47,615, an 11.4% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service and federal and state reimbursements.

During the year ended June 30, 2014, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund and helped offset some of the increase in food costs.

INDIVIDUAL FUND ANALYSIS

As previously noted, Dows 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 \$1,562,635, above last year's ending fund balances of \$1,433,102.

Governmental Fund Highlights

- The General Fund balance decreased from \$116,919 to \$(21,107) due, in part, to the negotiated salaries and benefits and existing expenditure commitments of the District.
- The Management Fund balance increased from \$484,222 to \$580,568. The increase was due mostly to an increase in property tax revenue. The increase was done to address anticipated unemployment claims associated with a pending reorganization with Clarion-Goldfield.
- The Capital Projects Fund balance increased from \$813,299 in fiscal 2013 to \$984,498 in fiscal 2014.

Proprietary Fund Highlights

School Nutrition Fund net position decreased from \$(1,068) at June 30, 2013 to \$(14,681) at June 30, 2014, representing a decrease of approximately 127%. Fee increases weren't enough to cover the increase in food cost resulting in a decrease in the net position of the Nutrition Fund. The District will work with the Clarion-Goldfield CSD to prepare meals according to federal guidelines and focus on serving meals in Dows. In FY14, meals were prepared in Clarion-Goldfield and transported to Dows Elementary to reduce costs associated with meal preparation. This still resulted in overspending revenue. Despite 75% of students qualifying for free and reduced meals, the District simply didn't have enough students to generate revenue for full pay and reimbursed meals for free and reduced students.

BUDGETARY HIGHLIGHTS

The District's total revenues were \$338,014 more than total budgeted revenues, a variance of 16.4%.

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 with enough margin to allow some flexibility 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 typically exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested approximately \$0.5 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 represents a net decrease of 8.7% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$60,339.

The original cost of the District's capital assets was approximately \$1.6 million. Governmental funds account for approximately \$1.6 million, with the remainder of less than \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-2014
Land	\$ 4	4	---	---	4	4	0.0%
Buildings	282	299	---	---	282	299	-5.7%
Furniture and equipment	176	203	1	1	177	204	-13.2%
Total	\$ 462	506	1	1	463	507	-8.7%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee was phased out over a ten-year period. Budget guarantee is now limited to one-year calculations, recalibrated every year to allow the district the greater of either the previous year at 101%, or the new budget year, whichever is greater. Although this provides the district with a partial safety net, state allowable growth will not overcome local declining enrollment and current level of expenditures. The district will continue to eat into reserves to meet financial obligations.
- The District is merging with Clarion-Goldfield Community School District effective July 1, 2014.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas. Making up special education deficits of one year, will be applied to an application for Modified Allow Growth (MAG). MAG directly impacts local property taxes.
- The District will need to continue to look for ways to reduce expenditures to help reduce the percentage of decline of the cash and authorized authority balances. Enrollment is projected to continue to decline due to low birth-rates, waning economic activity, and attrition.
- It is difficult for the District to project the future impact of legislative changes and or mandates.

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 Anita Frye, Secretary/Treasurer and Business Manager, Dows Community School District, 404 Park Avenue, Dows, Iowa 50071-7273. Beginning FY15, Anita Frye will remain the District Secretary and the new address for the reorganized school district is 319 Third Avenue NE, Clarion, Iowa 50525-1113.

Basic Financial Statements

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Position

June 30, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents:			
Other	\$ 1,580,640	-	1,580,640
Receivables:			
Property tax:			
Delinquent	7,122	-	7,122
Accounts	11,452	42	11,494
Accrued interest	132	-	132
Due from other governments	90,415	-	90,415
Prepaid insurance	23,384	-	23,384
Capital assets, net of accumulated depreciation	461,765	421	462,186
Total assets	<u>2,174,910</u>	<u>463</u>	<u>2,175,373</u>
 Liabilities			
Accounts payable	136,010	15,144	151,154
Advances from grantors	14,500	-	14,500
Long-term liabilities:			
Portion due after one year:			
Net OBEP liability	14,662	-	14,662
Total liabilities	<u>165,172</u>	<u>15,144</u>	<u>180,316</u>
 Net position			
Net investment in capital assets	461,765	421	462,186
Restricted for:			
Categorical funding	98,453	-	98,453
Management levy purposes	580,568	-	580,568
Physical plant and equipment	437,951	-	437,951
Student activities	18,676	-	18,676
Unrestricted	412,325	(15,102)	397,223
Total net position	<u>\$ 2,009,738</u>	<u>(14,681)</u>	<u>1,995,057</u>

Dows Community School District
Dows, Iowa
Statement of Activities
Year ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	\$ 860,257	244,759	106,012	-
Special instruction	262,039	-	14,100	-
Other instruction	91,359	-	11,615	-
	<u>1,213,655</u>	<u>244,759</u>	<u>131,727</u>	<u>-</u>
Support services:				
Student	47,485	-	-	-
Instructional staff	7,800	-	18,065	-
Administration	220,959	22,267	-	-
Operation and maintenance of plant	260,841	60,888	-	-
Transportation	88,869	-	-	-
	<u>625,954</u>	<u>83,155</u>	<u>18,065</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	29,957	-	-	-
Depreciation (unallocated)*	25,751	-	-	-
AEA flowthrough	57,028	-	57,028	-
	<u>112,736</u>	<u>-</u>	<u>57,028</u>	<u>-</u>
Total governmental activities	<u>1,952,345</u>	<u>327,914</u>	<u>206,820</u>	<u>-</u>
Business type activities:				
Non-instructional enterprise	47,615	6,913	27,089	-
Total	<u>\$ 1,999,960</u>	<u>334,827</u>	<u>233,909</u>	<u>-</u>
General Revenues:				
Property tax levied for:				
General purposes				
Capital outlay				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net position				
Net position beginning of year				
Net position end of year				

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business Type Activities	Total
(509,486)	-	(509,486)
(247,939)	-	(247,939)
(79,744)	-	(79,744)
<u>(837,169)</u>	<u>-</u>	<u>(837,169)</u>
(47,485)	-	(47,485)
10,265	-	10,265
(198,692)	-	(198,692)
(199,953)	-	(199,953)
(88,869)	-	(88,869)
<u>(524,734)</u>	<u>-</u>	<u>(524,734)</u>
(29,957)	-	(29,957)
(25,751)	-	(25,751)
-	-	-
<u>(55,708)</u>	<u>-</u>	<u>(55,708)</u>
(1,417,611)	-	(1,417,611)
-	(13,613)	(13,613)
<u>(1,417,611)</u>	<u>(13,613)</u>	<u>(1,431,224)</u>
\$ 956,645	-	956,645
91,175	-	91,175
109,634	-	109,634
303,415	-	303,415
2,546	-	2,546
32,691	-	32,691
<u>1,496,106</u>	<u>-</u>	<u>1,496,106</u>
78,495	(13,613)	64,882
<u>1,931,243</u>	<u>(1,068)</u>	<u>1,930,175</u>
<u>\$ 2,009,738</u>	<u>(14,681)</u>	<u>1,995,057</u>

Dows Community School District
Dows, Iowa

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2014

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Assets					
Cash and cash equivalents:					
Other	\$ 23,066	579,535	959,365	18,674	1,580,640
Receivables:					
Property tax:					
Delinquent	5,148	1,365	609	-	7,122
Accounts	11,452	-	-	-	11,452
Accrued interest	-	50	80	2	132
Due from other governments	45,191	-	45,224	-	90,415
Prepaid insurance	23,384	-	-	-	23,384
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 108,241</u>	<u>580,950</u>	<u>1,005,278</u>	<u>18,676</u>	<u>1,713,145</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 114,848	382	20,780	-	136,010
Advances from grantors	14,500	-	-	-	14,500
Total liabilities	<u>129,348</u>	<u>382</u>	<u>20,780</u>	<u>-</u>	<u>150,510</u>
Fund balances:					
Nonspendable:					
Prepaid expenditures	23,384	-	-	-	23,384
Restricted for:					
Categorical funding	98,453	-	-	-	98,453
Physical plant and equipment	-	-	437,951	-	437,951
Management levy purposes	-	580,568	-	-	580,568
School infrastructure	-	-	546,547	-	546,547
Student activities	-	-	-	18,676	18,676
Unassigned	(142,944)	-	-	-	(142,944)
Total fund balances	<u>(21,107)</u>	<u>580,568</u>	<u>984,498</u>	<u>18,676</u>	<u>1,562,635</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 108,241</u>	<u>580,950</u>	<u>1,005,278</u>	<u>18,676</u>	<u>1,713,145</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit D

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

June 30, 2014

Total fund balances of governmental funds (page 19)	\$ 1,562,635
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	461,765
Long-term liabilities, including compensated absences, and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(14,662)</u>
Net position of governmental activities (page 16)	<u>\$ 2,009,738</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2014

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:					
Local sources:					
Local tax	\$ 756,448	200,197	91,175	-	1,047,820
Other	338,889	2,362	21,884	14	363,149
State sources	457,122	91	109,675	-	566,888
Federal sources	52,981	-	-	-	52,981
Total revenues	<u>1,605,440</u>	<u>202,650</u>	<u>222,734</u>	<u>14</u>	<u>2,030,838</u>
Expenditures:					
Current:					
Instruction:					
Regular	771,813	70,035	-	-	841,848
Special	260,769	-	-	-	260,769
Other	91,127	-	-	-	91,127
	<u>1,123,709</u>	<u>70,035</u>	<u>-</u>	<u>-</u>	<u>1,193,744</u>
Support services:					
Student	47,093	-	-	-	47,093
Instructional staff	7,800	-	-	-	7,800
Administration	212,985	5,687	-	-	218,672
Operation and maintenance of plant	230,775	21,247	5,924	-	257,946
Transportation	64,076	9,335	15,654	-	89,065
	<u>562,729</u>	<u>36,269</u>	<u>21,578</u>	<u>-</u>	<u>620,576</u>
Other expenditures:					
Facilities acquisition	-	-	29,957	-	29,957
AEA flowthrough	57,028	-	-	-	57,028
	<u>57,028</u>	<u>-</u>	<u>29,957</u>	<u>-</u>	<u>86,985</u>
Total expenditures	<u>1,743,466</u>	<u>106,304</u>	<u>51,535</u>	<u>-</u>	<u>1,901,305</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(138,026)</u>	<u>96,346</u>	<u>171,199</u>	<u>14</u>	<u>129,533</u>
Change in fund balances	(138,026)	96,346	171,199	14	129,533
Fund balances beginning of year	<u>116,919</u>	<u>484,222</u>	<u>813,299</u>	<u>18,662</u>	<u>1,433,102</u>
Fund balances end of year	<u>\$ (21,107)</u>	<u>580,568</u>	<u>984,498</u>	<u>18,676</u>	<u>1,562,635</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit F

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 21) \$ 129,533

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

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

Expenditures for capital assets	15,634	
Depreciation expense	<u>(60,339)</u>	<u>(44,705)</u>

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

Other postemployment benefits		<u>(6,333)</u>
-------------------------------	--	----------------

Change in net position of governmental activities (page 18) \$ 78,495

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit G

Statement of Net Position
Proprietary Fund

June 30, 2014

	<u>School Nutrition</u>
Assets	
Current Assets:	
Accounts receivable	\$ 42
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	421
Total assets	<u>\$ 463</u>
Liabilities	
Current Liabilities:	
Warrants issued in excess of cash balance	\$ 15,144
Total current liabilities	<u>15,144</u>
Net Position	
Invested in capital assets, net of related debt	421
Unrestricted	<u>(15,102)</u>
Total net position	<u>\$ (14,681)</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit H

Statement of Revenues, Expenditures
and Changes in Fund Net Position
Proprietary Fund

June 30, 2014

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 6,913</u>
Non-instructional programs:	
Food service operations:	
Salaries and benefits	26,427
Supplies	20,748
Depreciation	<u>440</u>
Total operating expenses	<u>47,615</u>
Operating loss	<u>(40,702)</u>
Non-operating revenues:	
State sources	297
Federal sources	<u>26,792</u>
Total non-operating revenues	<u>27,089</u>
Decrease in net position	(13,613)
Net position beginning of year	<u>(1,068)</u>
Net position end of year	<u><u>\$ (14,681)</u></u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2014

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 6,536
Cash paid to employees for services	(26,427)
Cash paid to suppliers for goods or services	<u>(17,609)</u>
Net cash used by operating activities	<u>(37,500)</u>
Cash flows from non-capital financing activities:	
State grants received	297
Federal grants received	<u>25,735</u>
Net cash provided by non-capital financing activities	<u>26,032</u>
Net decrease in cash and cash equivalents	(11,468)
Cash and cash equivalents beginning of year	<u>(3,676)</u>
Cash and cash equivalents end of year	<u>\$ (15,144)</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (40,702)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	1,057
Depreciation	440
(Increase) in accounts receivable	(42)
Decrease in inventories	2,082
(Decrease) in unearned revenue	<u>(335)</u>
Net cash used by operating activities	<u>\$ (37,500)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2014, the District received \$1,057 of federal commodities.

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit J

Statement of Fiduciary Net Position
Fiduciary Funds

June 30, 2014

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and cash equivalents	\$ 45,166
Accrued interest receivable	<u>4</u>
Total assets	<u>45,170</u>
Liabilities	
Accounts	<u>3,500</u>
Net position	
Reserved for scholarships	<u><u>\$ 41,670</u></u>

See notes to financial statements

Dows Community School District
Dows, Iowa

Exhibit K

Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Year ended June 30, 2014

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ <u>38</u>
Total additions	<u>38</u>
Deductions:	
Regular instruction:	
Scholarships awarded	<u>8,400</u>
Change in net position	(8,362)
Net position beginning of year	<u>50,032</u>
Net position end of year	<u>\$ 41,670</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

(1) Summary of Significant Accounting Policies

Dows Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades preschool through five. The geographic area served includes the City of Dows, Iowa, and the predominate agricultural territory in Wright and Franklin 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, Dows 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. Dows 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wright and Franklin County Assessor's Conference boards.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

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 the interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 expenditures, including instructional, support and other costs.

The Management Levy Fund is used to account for the revenues and expenditures on the taxes levied for insurance and early retirement.

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

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require principal and 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

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

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

D. Assets, Liabilities and Fund Equity

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

Cash and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments, if any, are stated at fair value except for the investment in non-negotiable certificates of deposit which are stated at cost.

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

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.

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	300
Other furniture and equipment	5,000

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	8-10 years

Advances from Grantors – Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

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

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

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

(2) Cash and Cash Equivalents

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

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

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,258	---	---	4,258
Total capital assets not being depreciated	<u>4,258</u>	<u>---</u>	<u>---</u>	<u>4,258</u>
Capital assets being depreciated:				
Buildings	959,682	---	---	959,682
Furniture and equipment	<u>598,092</u>	<u>15,634</u>	---	<u>613,726</u>
Total capital assets being depreciated	<u>1,557,774</u>	<u>15,634</u>	<u>---</u>	<u>1,573,408</u>
Less accumulated depreciation for:				
Buildings	660,525	17,414	---	677,939
Furniture and equipment	<u>395,037</u>	<u>42,925</u>	---	<u>437,962</u>
Total accumulated depreciation	<u>1,055,562</u>	<u>60,339</u>	<u>---</u>	<u>1,115,901</u>
Total capital assets being depreciated, net	<u>502,212</u>	<u>(44,705)</u>	<u>---</u>	<u>457,507</u>
Governmental activities capital assets, net	<u>\$ 506,470</u>	<u>(44,705)</u>	<u>---</u>	<u>461,765</u>

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 38,569	---	---	38,569
Less accumulated depreciation	<u>37,708</u>	<u>440</u>	<u>---</u>	<u>38,148</u>
Business type activities capital assets, net	<u>\$ 861</u>	<u>440</u>	<u>---</u>	<u>421</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Regular instruction	\$ 15,906
Administration service	1,395
Operation and maintenance of plant	1,884
Transportation	15,403
Unallocated	<u>25,751</u>
Total depreciation expense -- governmental activities	<u>\$ 60,339</u>

Business type activities:

Food service operations	<u>\$ 440</u>
-------------------------	---------------

(4) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Net OPEB liability	<u>8,329</u>	<u>6,333</u>	<u>---</u>	<u>14,662</u>	<u>---</u>
Total	<u>\$ 8,329</u>	<u>6,316</u>	<u>2,161</u>	<u>14,662</u>	<u>---</u>

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

(5) 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 payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$64,028, \$56,929, and \$49,626, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 12 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

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

Annual required contribution		\$	6,808
Interest on net OPEB obligation			208
Adjustments to annual required contribution			<u>(683)</u>
Annual OPEB cost			6,333
Contributions made			<u>---</u>
Increase in net OPEB obligation			6,333
Net OPEB obligation beginning of year			<u>8,329</u>
Net OPEB obligation end of year		\$	<u>14,662</u>

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

For the year ended June 30, 2014, the District did not contribute to the medical plan. Plan members eligible for benefits contributed nothing, or 0% of the premium.

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

Year <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage <u>Annual OPEB Cost Contributed</u>	Net <u>OPEB Obligation(Asset)</u>
June 30, 2012	\$ 3,309	40.7%	1,813
June 30, 2013	6,516	16.9%	8,329
June 30, 2014	6,333	0.0%	6,333

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$37,994, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$37,994. The covered payroll (annual payroll of active employees covered by

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

the plan) was approximately \$775,000 and the ratio of the UAAL to covered payroll was 4.9%. 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 health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2010 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2010.

Projected claim costs of the medical plan are \$649 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

(7) Risk Management

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

(8) 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 \$57,028 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.

(9) 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>
Gifted and Talented	\$ 28,135
Returning Dropout and Dropout Prevention Program	29,504
Successful Progression for Early Readers	12,604
At-Risk Programs	1,601
Teacher Leadership Grant	5,461
Limited English Proficient	2,523
Professional Development for Model Care Curriculum	4,533
Professional Development	11,996
Professional Staff Recruitment	<u>2,096</u>
	\$ <u>98,453</u>

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2014

(10) Subsequent Events

Subsequent events have been evaluated through March 17, 2015, which is the date the financial statements were available to be issued. The voters in the district have approved the District's reorganization plan to merge with Clarion-Goldfield Community School District as of July 1, 2014. All assets will be transferred to the new Clarion-Goldfield-Dows Community School District.

Required Supplementary Information

Dows Community School District
Dows, Iowa

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

Required Supplementary Information

Year ended June 30, 2014

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Revenues:		
Local sources	\$ 1,410,969	6,913
State sources	566,888	297
Federal sources	52,981	26,792
Total revenues	<u>2,030,838</u>	<u>34,002</u>
Expenditures/Expenses:		
Instruction	1,193,744	-
Support services	620,576	-
Non-instructional programs	-	47,615
Other expenditures	86,985	-
Total expenditures	<u>1,901,305</u>	<u>47,615</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	129,533	(13,613)
Other financing sources, net	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	129,533	(13,613)
Balances beginning of year	<u>1,433,102</u>	<u>(1,068)</u>
Balances end of year	<u>\$ 1,562,635</u>	<u>(14,681)</u>

See accompanying independent auditor's report.

Total <u>Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,417,882	1,170,106	1,170,106	247,776
567,185	452,720	452,720	114,465
79,773	104,000	104,000	(24,227)
<u>2,064,840</u>	<u>1,726,826</u>	<u>1,726,826</u>	<u>338,014</u>
1,193,744	1,254,250	1,254,250	60,506
620,576	961,000	961,000	340,424
47,615	61,500	61,500	13,885
86,985	62,883	62,883	(24,102)
<u>1,948,920</u>	<u>2,339,633</u>	<u>2,339,633</u>	<u>390,713</u>
115,920	(612,807)	(612,807)	728,727
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
115,920	(612,807)	(612,807)	728,727
<u>1,432,034</u>	<u>1,308,631</u>	<u>1,308,631</u>	<u>123,403</u>
<u>1,547,954</u>	<u>695,824</u>	<u>695,824</u>	<u>852,130</u>

Dows Community School District
Dows, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2014

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

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

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

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

Dows Community School District
Dows, Iowa

Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information

Year Ended <u>June 30,</u>	Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
2010	July 1, 2009	-	\$ 26,082	\$ 26,082	0.0%	\$ 564,800	4.6%
2011	July 1, 2009	-	26,082	26,082	0.0%	546,650	4.8%
2012	July 1, 2009	-	26,082	26,082	0.0%	617,000	4.2%
2013	July 1, 2012	-	38,768	38,768	0.0%	650,000	5.8%
2014	July 1, 2012	-	37,994	37,994	0.0%	775,000	4.9%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

Dows Community School District
Dows, Iowa

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2014

	<u>Special Revenue Student Activity</u>
Assets	
Cash and pooled investments	\$ 18,674
Receivables:	
Accrued interest	<u>2</u>
Total assets	<u><u>\$ 18,676</u></u>
Liabilities and Fund Balances	
Fund balances:	
Restricted for:	
Student activities	<u>\$ 18,676</u>
Total liabilities and fund equity	<u><u>\$ 18,676</u></u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 2

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

Year ended June 30, 2014

	<u>Special Revenue Student Activity</u>
Revenues:	
Local sources:	
Other	\$ 14
Total revenues	<u>14</u>
Expenditures:	
Total expenditures	<u>-</u>
Excess of revenues over (under) expenditures	14
Fund balances beginning of year	<u>18,662</u>
Fund balances end of year	<u><u>\$ 18,676</u></u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 3

Combining Balance Sheet
Capital Project Accounts

June 30, 2014

	<u>Capital Projects</u>		<u>Total</u>
	<u>Statewide Sales, Services and Use Tax</u>	<u>Physical Plant and Equipment Levy</u>	
Assets			
Cash and cash equivalents:			
Other	\$ 522,061	437,304	959,365
Receivables:			
Property tax:			
Delinquent	-	609	609
Accrued interest	42	38	80
Due from other governments	<u>45,224</u>	<u>-</u>	<u>45,224</u>
Total assets	<u>567,327</u>	<u>437,951</u>	<u>1,005,278</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	<u>20,780</u>	<u>-</u>	<u>20,780</u>
Total liabilities	<u>20,780</u>	<u>-</u>	<u>20,780</u>
Fund balances			
Restricted for:			
School infrastructure	546,547	-	546,547
Physical plant and equipment	<u>-</u>	<u>437,951</u>	<u>437,951</u>
Total fund balances	<u>546,547</u>	<u>437,951</u>	<u>984,498</u>
Total liabilities and fund balances	<u>\$ 567,327</u>	<u>437,951</u>	<u>1,005,278</u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 4

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Capital Project Accounts

June 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	91,175	91,175
Other	21,401	483	21,884
State sources	109,634	41	109,675
Total revenues	131,035	91,699	222,734
Expenditures:			
Support services:			
Operation and maintenance of plant	-	5,924	5,924
Student transportation	-	15,654	15,654
Other expenditures:			
Facilities acquisition	29,957	-	29,957
Total expenditures	29,957	21,578	51,535
Excess (deficiency) of revenues over (under) expenditures	101,078	70,121	171,199
Change in fund balances	101,078	70,121	171,199
Fund balances beginning of year	445,469	367,830	813,299
Fund balances end of year	\$ 546,547	437,951	984,498

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 5

Schedule of Changes in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2014

<u>Account</u>	Balance Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Balance End of Year
Instrumental Music	\$ (430)	-	-	(430)
Book Orders	1,593	-	-	1,593
Elementary Fund	<u>17,499</u>	<u>14</u>	<u>-</u>	<u>17,513</u>
Total	<u>\$ 18,662</u>	<u>14</u>	<u>-</u>	<u>18,676</u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule of Revenues by Source and Expenditures by Function -
All Governmental Funds

For the Last Ten Years

	Modified Accrual Basis				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues:					
Local sources:					
Local tax	\$ 1,047,820	1,129,684	1,105,725	1,060,493	996,931
Tuition	-	-	11,767	1,442	-
Other	363,149	27,806	31,032	10,496	10,545
State sources	566,888	478,008	433,797	460,370	541,283
Federal sources	52,981	74,161	106,744	126,399	149,265
Total	<u>\$ 2,030,838</u>	<u>1,709,659</u>	<u>1,689,065</u>	<u>1,659,200</u>	<u>1,698,024</u>
Expenditures:					
Instruction:					
Regular	\$ 841,848	732,329	732,329	635,115	602,260
Special	260,769	225,802	225,802	215,442	252,368
Other	91,127	116,747	116,747	122,407	67,652
Support services:					
Student	47,093	38,591	38,591	47,842	26,396
Instructional staff	7,800	28,562	28,562	11,331	30,005
Administration	218,672	205,045	205,045	185,220	185,819
Operation and maintenance of plant	257,946	274,270	274,270	248,828	175,668
Transportation	89,065	75,540	75,540	50,091	54,864
Central support	-	-	-	-	-
Noninstructional programs	-	-	-	-	868
Other expenditures:					
Facilities acquisition	29,957	-	-	49,881	12,657
AEA flowthrough	57,028	57,630	57,630	64,126	64,750
Total	<u>\$ 1,901,305</u>	<u>1,754,516</u>	<u>1,754,516</u>	<u>1,630,283</u>	<u>1,473,307</u>

See accompanying independent auditor's report.

Schedule 6

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
1,013,519	990,078	989,265	1,030,356	987,285
36,966	25,113	24,347	24,081	179,867
22,495	62,193	70,053	74,455	84,236
655,878	619,821	643,970	639,902	623,486
61,354	66,699	68,201	53,279	73,934
<u>1,790,212</u>	<u>1,763,904</u>	<u>1,795,836</u>	<u>1,822,073</u>	<u>1,948,808</u>
586,306	602,668	621,567	687,220	754,189
313,467	420,520	359,105	274,412	392,669
87,970	95,528	78,674	72,031	62,078
46,596	44,679	41,959	45,009	29,852
88,241	61,789	53,852	48,982	59,594
181,082	179,266	172,184	172,258	197,003
199,267	181,846	248,368	192,962	135,745
79,050	75,690	55,319	50,558	54,594
-	-	-	-	34,327
811	579	1,332	-	-
19,052	28,253	53,343	23,012	66,753
55,804	55,162	54,917	53,276	52,655
<u>1,657,646</u>	<u>1,745,980</u>	<u>1,740,620</u>	<u>1,619,720</u>	<u>1,839,459</u>

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

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
Dows 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 Dows 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, and have issued our report thereon dated March 17, 2015.

Internal Control Over Financial Reporting

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

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

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

corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-14 to be a material weakness.

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

Compliance and Other Matters

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

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

Dows Community School District's Responses to Findings

Dows Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Dows 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 results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Dows 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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 17, 2015

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2014

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts journal were all done by the same person.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-14 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Dows Community School District does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2014

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the District's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-14 Certified Budget – Disbursements for the year ended June 30, 2014 exceeded the certified budget in the other expenditures function.

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

Response – Future budgets will be amended in sufficient amounts and in proper functional areas to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

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

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

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2014

- II-D-14 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.
- II-F-14 Board Minutes - No transactions requiring Board approval had not been approved by the Board.
- II-G-14 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for October 2013 were overstated. The District included 3 students as resident students that were not enrolled at count date. The district also missed the October 15th deadline for timely filing.
- Recommendation – The District should contact the Iowa Department of Education and Department of Management to resolve this matter.
- Response – We will contact the Iowa Department of Education and the Department of Management.
- Conclusion – Response accepted.
- II-H-14 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-14 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-14 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely.
- II-K-14 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2014

II-L-14 Deficit Balances – There was one student activity account with a deficit balance as well as a deficit of \$14,681 in the School Nutrition account.

Recommendation- The District should review these accounts and return them to a sound financial position.

Response – We anticipate this to no longer be a problem once our Districts’ are merged.

Conclusion – Response accepted.

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

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

Beginning balance		\$ 445,469
Revenues:		
Sales tax revenues	\$ 109,634	
Other local revenues	<u>21,401</u>	<u>131,035</u>
		576,504
Expenditures/transfers out:		
School infrastructure construction	<u>29,957</u>	<u>29,957</u>
Ending balance		<u>\$ 546,547</u>

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