

FARRAGUT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Farragut Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2013 Election)		
Robert Lynn	President	2013
Tim Blank	Vice President	2015
Scott Lashier	Board Member	2013
Jenny Varellas	Board Member	2015
Monica Whitehead	Board Member	2015
(After September 2013 Election)		
Jenny Varellas	President	2015
Monica Whitehead	Vice President	2015
Robert Lynn	Board Member	2017
Tim Blank	Board Member	2015
Shelly Mount	Board Member	2017
School Officials		
Jay Lutt	Superintendent (Resigned June 2014)	2014
Tom Hinrichs	Interim-Superintendent (Appointed June 2014)	2014
Pam Nebel	Board Secretary	2014
Gloria McComb	District Treasurer/ Business Manager	2014
Gruhn Law Firm	Attorney	2014

FARRAGUT COMMUNITY SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Farragut 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.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary 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 Farragut 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 three years ended June 30, 2013(which are not presented herein) and expressed unmodified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended June 30, 2010(which are not presented herein) and expressed unmodified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2015, on our consideration of Farragut Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that reports 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 and should be considered in assessing the results of our audit.



NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Farragut Community School District provides the 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 \$3,413,088 in fiscal year 2013 to \$3,735,914 in fiscal year 2014, while General Fund expenditures decreased from \$3,504,893 in fiscal year 2013 to \$3,143,728 in fiscal year 2014. This resulted in an increase in the District's General Fund balance from a deficit balance of \$197,924 at June 30, 2013 to \$394,262 at June 30, 2014, which represents a 299.20% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax revenues in fiscal year 2014. The decrease in expenditures was due primarily to a decrease in instructional costs.

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

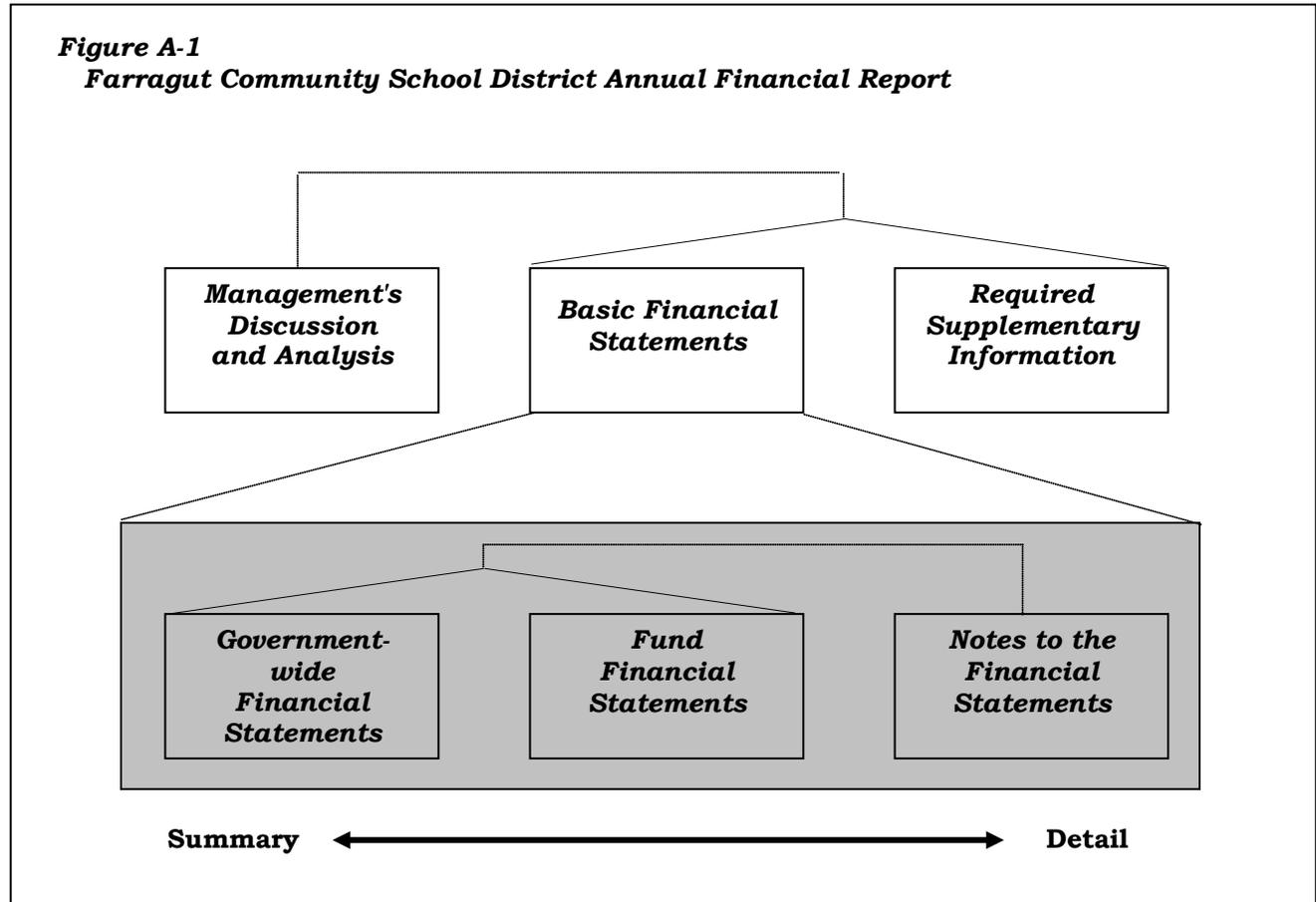


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Private-Purpose Trust Fund.
 - Private-Purpose Trust Fund - The District accounts for outside donations to scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 3,838,332	3,420,315	21,401	18,961	3,859,733	3,439,276	12.23%
Capital assets	1,629,850	1,386,558	921	1,013	1,630,771	1,387,571	17.53%
Total assets	5,468,182	4,806,873	22,322	19,974	5,490,504	4,826,847	13.75%
Long-term obligations	918,954	826,021	-	-	918,954	826,021	11.25%
Other liabilities	526,960	537,770	62,294	61,949	589,254	599,719	-1.74%
Total liabilities	1,445,914	1,363,791	62,294	61,949	1,508,208	1,425,740	5.78%
Deferred inflows of resources	2,097,984	1,960,001	-	-	2,097,984	1,960,001	7.04%
Net position:							
Net investment in capital assets	834,225	691,558	921	1,013	835,146	692,571	20.59%
Restricted	769,593	1,051,311	-	-	769,593	1,051,311	-26.80%
Unrestricted	320,466	(259,788)	(40,893)	(42,988)	279,573	(302,776)	192.34%
Total net position	\$ 1,924,284	1,483,081	(39,972)	(41,975)	1,884,312	1,441,106	30.75%

The District's total net position increased by 30.75%, or \$443,206, from the prior year. A significant portion of the District's net position is invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased 26.80%, or \$281,718, from the prior year. The decrease was primarily due to the decrease in the Capital Projects: Statewide Sales, Services and Use Tax Fund balance.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$582,349, or 192.34%. The increase in unrestricted net position is primarily a result of the increase in the unassigned General Fund balance.

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							Total Change 2013-14
	Governmental Activities		Business Type Activities		Total District			
	2014	2013	2014	2013	2014	2013		
Revenues:								
Program revenues:								
Charges for service	\$ 822,967	867,081	35,545	34,782	858,512	901,863	-4.81%	
Operating grants, contributions and restricted interest	168,141	254,267	51,071	48,142	219,212	302,409	-27.51%	
General revenues:								
Property tax	1,963,176	1,588,648	-	-	1,963,176	1,588,648	23.58%	
Income surtax	123,628	120,253	-	-	123,628	120,253	2.81%	
Statewide sales, services and use tax	185,048	191,282	-	-	185,048	191,282	-3.26%	
Unrestricted state grants	801,644	882,477	-	-	801,644	882,477	-9.16%	
Unrestricted investment earnings	3,069	873	20	6	3,089	879	251.42%	
Other	22,487	13,150	-	340	22,487	13,490	66.69%	
Total revenues	<u>4,090,160</u>	<u>3,918,031</u>	<u>86,636</u>	<u>83,270</u>	<u>4,176,796</u>	<u>4,001,301</u>	<u>4.39%</u>	
Program expenses:								
Instruction	2,187,663	2,571,616	-	-	2,187,663	2,571,616	-14.93%	
Support services	1,256,329	1,298,794	-	312	1,256,329	1,299,106	-3.29%	
Non-instructional programs	-	-	84,633	105,316	84,633	105,316	-19.64%	
Other expenses	204,965	205,913	-	-	204,965	205,913	-0.46%	
Total expenses	<u>3,648,957</u>	<u>4,076,323</u>	<u>84,633</u>	<u>105,628</u>	<u>3,733,590</u>	<u>4,181,951</u>	<u>-10.72%</u>	
Excess(Deficiency) of revenues over(under) expenditures	441,203	(158,292)	2,003	(22,358)	443,206	(180,650)	345.34%	
Transfers	-	(1,105)	-	1,105	-	-	0.00%	
Changes in net position	441,203	(159,397)	2,003	(21,253)	443,206	(180,650)	345.34%	
Net position beginning of year	<u>1,483,081</u>	<u>1,642,478</u>	<u>(41,975)</u>	<u>(20,722)</u>	<u>1,441,106</u>	<u>1,621,756</u>	<u>-11.14%</u>	
Net position end of year	<u>\$ 1,924,284</u>	<u>1,483,081</u>	<u>(39,972)</u>	<u>(41,975)</u>	<u>1,884,312</u>	<u>1,441,106</u>	<u>30.75%</u>	

In fiscal year 2014, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 75.14% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.98% of the revenue from business type activities.

The District's total revenues were approximately \$4.18 million, of which approximately \$4.09 million was for governmental activities and approximately \$0.09 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.39% increase in revenues and a 10.72% decrease in expenses. The most significant increase in revenue was from property tax revenues which increased \$374,528 from the prior year. The decrease in expenses related to a decrease in instructional costs.

Governmental Activities

Revenues for governmental activities were \$4,090,160 and expenses were \$3,648,957.

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

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 2,187,663	2,571,616	-14.93%	1,471,576	1,773,328	-17.02%
Support services	1,256,329	1,298,794	-3.27%	1,070,670	1,062,693	0.75%
Other expenses	204,965	205,913	-0.46%	115,603	118,954	-2.82%
Totals	<u>\$ 3,648,957</u>	<u>4,076,323</u>	<u>-10.48%</u>	<u>2,657,849</u>	<u>2,954,975</u>	<u>-10.06%</u>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$822,967.
- Federal and state governments along with contributions from local sources subsidized certain programs with grants and contributions totaling \$168,141.
- The net cost of governmental activities was financed with \$1,963,176 in property tax, \$123,628 in income surtax, \$185,048 in statewide sales, services and use tax, \$801,644 in unrestricted state grants, \$3,069 in interest income and \$22,487 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$86,636 and expenses were \$84,633. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and unrestricted investment earnings.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Farragut 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 \$1,107,731, above last year's ending fund balances of \$811,062. The primary reason for the increase in combined fund balances is due to the increase in fund balance of the General Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Revenue from local sources increased compared to the prior year, resulting in an increase in total revenue. Expenditures decreased compared to the prior year, primarily due to decreased spending in the instruction functional area. The net result was an increase in fund balance from a deficit of \$197,924 at June 30, 2013 to a fund balance of \$394,262 at June 30, 2014.

-
- The combined Capital Projects Fund balance decreased from \$672,347 at June 30, 2013 to \$452,776 at June 30, 2014. During the year ended June 30, 2014 the Capital Projects: Statewide Sales, Services and Use Tax Fund balance decreased from \$575,845 at June 30, 2013 to \$357,987 at June 30, 2014. The Capital Projects: Physical Plant and Equipment Levy Fund balance decreased from \$96,502 at June 30, 2013 to \$94,789 at June 30, 2014.

Proprietary Fund Highlights

For the year ended June 30, 2014, the School Nutrition Fund experienced an increase in revenues and a decrease in expenses as compared to the year ended June 30, 2013. Overall, net position increased from a deficit \$41,975 at June 30, 2013 to a deficit \$39,972 at June 30, 2014, representing an increase of 4.77%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$48,739 more than budgeted revenues, a variance of 1.18%. The most significant variances resulted from the District receiving more in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the District exceeded its General Fund unspent authorized budget

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$1,630,771, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 17.53% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$182,015.

The original cost of the District's capital assets was \$4,869,457. Governmental funds account for \$4,851,888 with the remainder of \$17,569 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$159,505 at June 30, 2013 as compared to \$272,587 at June 30, 2014. This increase is due to the purchase of two buses and other vehicles during fiscal year 2014.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 15,020	15,020	-	-	15,020	15,020	0.00%
Land improvements	51,877	53,607	-	-	51,877	53,607	-3.23%
Buildings	1,291,287	1,159,439	-	-	1,291,287	1,159,439	11.37%
Machinery and equipment	271,666	158,492	921	1,013	272,587	159,505	70.90%
Total	\$ 1,629,850	1,386,558	921	1,013	1,630,771	1,387,571	17.53%

Long-Term Debt

At June 30, 2014, the District had \$918,954 in revenue bonds, a bus lease and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

- The District had outstanding revenue bonds of \$645,000 at June 30, 2014 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.
- The District had an outstanding bus lease of \$150,625 at June 30, 2014 payable from the Capital Projects: Physical Plant and Equipment Levy Fund.
- The District had termination benefits outstanding of \$49,320 in the governmental activities at June 30, 2014.
- The District had a net OPEB liability of \$74,009 in the governmental activities at June 30, 2014.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2014	2013	2013-14
Revenue bonds	\$ 645,000	695,000	-7.19%
Bus lease	150,625	-	100.00%
Termination benefits	49,320	72,813	-32.26%
Net OPEB Liability	74,009	58,208	27.15%
Total	\$ 918,954	826,021	11.25%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Certified enrollment count continues to decline.
- The State's Allowable Growth is not enough to keep pace with increased costs. The District has offered early retirement and made reductions through attrition with little or no

impact to student programs and class offerings. Continued low allowable growth may force the District to make reductions to student programs.

- The District has multiple 28E agreements with a neighboring school that could change from year to year.
- The number of students taking concurrent courses has nearly doubled. The District has benefited from the supplemental weighting (and additional funds) the courses generate.
- The federally mandated Affordable Care Act will add health care expenditures to the District that we currently do not have.
- The District has a negative unspent budget balance requiring the District to appear before the SBRC. To address this, the District is planning a number of budget reductions including reducing staff positions, combining administrative roles and closing the current elementary building.

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 Kris Wood, Business Manager, Farragut Community School District, 907 Hartford Avenue, Farragut, Iowa, 51639.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,196,212	15,149	1,211,361
Receivables:			
Property tax:			
Delinquent	34,217	-	34,217
Succeeding year	2,097,984	-	2,097,984
Income surtax	105,546	-	105,546
Accounts	489	-	489
Inventories	-	2,159	2,159
Due from other funds	60,945	-	60,945
Due from other governments	342,939	4,093	347,032
Capital assets, net of accumulated depreciation	1,629,850	921	1,630,771
TOTAL ASSETS	5,468,182	22,322	5,490,504
LIABILITIES			
Due to other funds	-	60,945	60,945
Accounts payable	306,676	-	306,676
Salaries and benefits payable	217,951	477	218,428
Accrued interest payable	2,333	-	2,333
Unearned revenue	-	872	872
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	55,000	-	55,000
Bus lease payable	21,348	-	21,348
Termination benefits payable	13,671	-	13,671
Portion due after one year:			
Revenue bonds payable	590,000	-	590,000
Bus lease payable	129,277	-	129,277
Termination benefits payable	35,649	-	35,649
Net OPEB liability	74,009	-	74,009
TOTAL LIABILITIES	1,445,914	62,294	1,508,208
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues:			
Succeeding year property tax	2,097,984	-	2,097,984
NET POSITION			
Net investment in capital assets	834,225	921	835,146
Restricted for:			
Categorical funding	106,179	-	106,179
Management levy purposes	9,507	-	9,507
Student activities	127,210	-	127,210
Debt service	73,921	-	73,921
School infrastructure	357,987	-	357,987
Physical plant and equipment	94,789	-	94,789
Unrestricted	320,466	(40,893)	279,573
TOTAL NET POSITION	\$ 1,924,284	(39,972)	1,884,312

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,402,141	409,147	18,013	(974,981)	-	(974,981)
Special	236,599	101,909	11,127	(123,563)	-	(123,563)
Other	548,923	131,748	44,143	(373,032)	-	(373,032)
	<u>2,187,663</u>	<u>642,804</u>	<u>73,283</u>	<u>(1,471,576)</u>	<u>-</u>	<u>(1,471,576)</u>
Support services:						
Student	72,499	13,601	-	(58,898)	-	(58,898)
Instructional staff	112,738	6,468	5,496	(100,774)	-	(100,774)
Administration	546,532	117,231	-	(429,301)	-	(429,301)
Operation and maintenance of plant	256,967	42,863	-	(214,104)	-	(214,104)
Transportation	267,593	-	-	(267,593)	-	(267,593)
	<u>1,256,329</u>	<u>180,163</u>	<u>5,496</u>	<u>(1,070,670)</u>	<u>-</u>	<u>(1,070,670)</u>
Long-term debt interest	26,518	-	-	(26,518)	-	(26,518)
Other expenses:						
AEA flowthrough	89,362	-	89,362	-	-	-
Depreciation(unallocated)*	89,085	-	-	(89,085)	-	(89,085)
	<u>178,447</u>	<u>-</u>	<u>89,362</u>	<u>(89,085)</u>	<u>-</u>	<u>(89,085)</u>
Total governmental activities	3,648,957	822,967	168,141	(2,657,849)	-	(2,657,849)
Business type activities:						
Non-instructional programs:						
Food service operations	84,633	35,545	51,071	-	1,983	1,983
Total	<u>\$ 3,733,590</u>	<u>858,512</u>	<u>219,212</u>	<u>(2,657,849)</u>	<u>1,983</u>	<u>(2,655,866)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,925,737	-	1,925,737
Capital outlay				37,439	-	37,439
Income surtax				123,628	-	123,628
Statewide sales, services and use tax				185,048	-	185,048
Unrestricted state grants				801,644	-	801,644
Unrestricted investment earnings				3,069	20	3,089
Other				22,487	-	22,487
Total general revenues				<u>3,099,052</u>	<u>20</u>	<u>3,099,072</u>
Change in net position				441,203	2,003	443,206
Net position beginning of year				1,483,081	(41,975)	1,441,106
Net position end of year				<u>\$ 1,924,284</u>	<u>(39,972)</u>	<u>1,884,312</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 685,020	247,308	261,440	1,193,768
Receivables:				
Property tax:				
Delinquent	33,562	652	3	34,217
Succeeding year	2,007,695	40,289	50,000	2,097,984
Income surtax	105,546	-	-	105,546
Accounts	489	-	-	489
Due from other funds	60,945	172,039	-	232,984
Due from other governments	309,682	33,257	-	342,939
TOTAL ASSETS	\$ 3,202,939	493,545	311,443	4,007,927
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 172,039	-	-	172,039
Accounts payable	305,446	480	750	306,676
Salaries and benefits payable	217,951	-	-	217,951
Total liabilities	695,436	480	750	696,666
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	2,007,695	40,289	50,000	2,097,984
Income surtax	105,546	-	-	105,546
Total deferred inflows of resources	2,113,241	40,289	50,000	2,203,530
Fund balances:				
Restricted for:				
Categorical funding	106,179	-	-	106,179
Management levy purposes	-	-	58,827	58,827
Student activities	-	-	127,210	127,210
Debt service	-	-	76,254	76,254
School infrastructure	-	357,987	-	357,987
Physical plant and equipment	-	94,789	-	94,789
Unassigned:				
General	288,083	-	-	288,083
Student activities	-	-	(1,598)	(1,598)
Total fund balances	394,262	452,776	260,693	1,107,731
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,202,939	493,545	311,443	4,007,927

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds(page 20)	\$	1,107,731
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,629,850
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		2,444
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period and, therefore, is recognized as a deferred inflows of resources in the governmental funds.		105,546
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(2,333)
Long-term liabilities, including revenue bonds payable, capital lease payable, other postemployment benefits payable and termination benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(918,954)</u>
Net position of governmental activities(page 18)	\$	<u><u>1,924,284</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,052,602	37,439	749	2,090,790
Tuition	406,789	-	-	406,789
Other	298,618	431	138,865	437,914
Intermediate sources	4,620	-	-	4,620
State sources	903,086	185,048	-	1,088,134
Federal sources	65,899	-	-	65,899
TOTAL REVENUES	3,731,614	222,918	139,614	4,094,146
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,400,535	-	14,634	1,415,169
Special	235,750	-	-	235,750
Other	428,191	-	113,839	542,030
	2,064,476	-	128,473	2,192,949
Support services:				
Student	72,499	-	-	72,499
Instructional staff	31,728	73,125	-	104,853
Administration	490,967	-	47,170	538,137
Operation and maintenance of plant	194,812	4,117	29,645	228,574
Transportation	199,884	203,580	8,845	412,309
	989,890	280,822	85,660	1,356,372
Capital outlay	-	239,534	-	239,534
Long-term debt:				
Principal	-	-	50,000	50,000
Interest and fiscal charges	-	-	24,185	24,185
	-	-	74,185	74,185
Other expenditures:				
AEA flowthrough	89,362	-	-	89,362
TOTAL EXPENDITURES	3,143,728	520,356	288,318	3,952,402
Excess(Deficiency) of revenues over(under)expenditures	587,886	(297,438)	(148,704)	141,744
Other financing sources(uses):				
Transfer in	-	-	72,758	72,758
Transfer out	-	(72,758)	-	(72,758)
Capital lease proceeds	-	150,625	-	150,625
Sale of equipment	4,300	-	-	4,300
Total other financing sources(uses)	4,300	77,867	72,758	154,925
Change in fund balances	592,186	(219,571)	(75,946)	296,669
Fund balances beginning of year	(197,924)	672,347	336,639	811,062
Fund balances end of year	\$ 394,262	452,776	260,693	1,107,731

SEE NOTES TO FINANCIAL STATEMENTS.

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

Change in fund balances - total governmental funds(page 22) \$ 296,669

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

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

Expenditures for capital assets	\$ 425,215	
Depreciation expense	(181,923)	243,292

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 494

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issuances and repayments are as follows:

Issued	(150,625)	
Repaid	50,000	(100,625)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (2,333)

Income surtax account receivable is considered available revenue and is recognized as a deferred inflow of resources in the governmental funds. (3,986)

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

Termination benefits	23,493	
Other postemployment benefits	(15,801)	7,692

Changes in net position of governmental activities(page 19) \$ 441,203

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
ASSETS		
Current assets:		
Cash and pooled investments	\$ 15,149	2,444
Due from other governments	4,093	-
Inventories	2,159	-
Total current assets	21,401	2,444
Noncurrent assets:		
Capital assets, net of accumulated depreciation	921	-
TOTAL ASSETS	22,322	2,444
LIABILITIES		
Current liabilities:		
Due to other funds	60,945	-
Salaries and benefits payable	477	-
Unearned revenue	872	-
TOTAL LIABILITIES	62,294	-
NET POSITION		
Invested in capital assets	921	-
Unrestricted	(40,893)	2,444
TOTAL NET POSITION	\$ (39,972)	2,444

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUES:		
Local sources:		
Charges for service	\$ 35,545	-
Donations	131	-
Miscellaneous	-	5,815
TOTAL OPERATING REVENUES	35,676	5,815
OPERATING EXPENSES:		
Support services:		
Administration:		
Benefits	-	5,322
Non-instructional programs:		
Food service operations:		
Salaries	36,903	-
Benefits	6,149	-
Services	513	-
Supplies	40,952	-
Depreciation	92	-
Other	24	-
	84,633	-
TOTAL OPERATING EXPENSES	84,633	5,322
OPERATING INCOME(LOSS)	(48,957)	493
NON-OPERATING REVENUES:		
State sources	774	-
Federal sources	50,166	-
Interest income	20	1
TOTAL NON-OPERATING REVENUES	50,960	1
Change in net position	2,003	494
Net position beginning of year	(41,975)	1,950
Net position end of year	\$ (39,972)	2,444

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 35,595	-
Cash received from donations	131	
Cash received from miscellaneous	-	5,815
Cash payments to employees for services	(42,757)	(5,322)
Cash payments to suppliers for goods or services	(36,974)	(1,120)
Net cash provided by(used in) operating activities	(44,005)	(627)
Cash flows from non-capital financing activities:		
State grants received	774	-
Federal grants received	40,204	-
Net cash provided by non-capital financing activities	40,978	-
Cash flows from investing activities:		
Interest on investments	20	1
Net decrease in cash and cash equivalents	(3,007)	(626)
Cash and cash equivalents beginning of year	18,156	3,070
Cash and cash equivalents end of year	\$ 15,149	2,444
Reconciliation of operating income(loss) to net cash used in operating activities:		
Operating income(loss)	\$ (48,957)	493
Adjustments to reconcile operating income(loss) to net cash used in operating activities:		
Commodities consumed	5,869	-
Depreciation	92	-
Increase in inventories	(1,354)	-
Increase in salaries and benefits payable	295	-
Decrease in accounts payable	-	(1,120)
Increase in unearned revenue	50	-
Net cash used in operating activities	\$ (44,005)	(627)

NON-CASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received \$5,869 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 32,991
LIABILITIES	<u>-</u>
NET POSITION	
Restricted for scholarships	<u>\$ 32,991</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust Scholarship</u>
ADDITIONS:	
Local sources:	
Interest	\$ 258
Contributions	1,000
TOTAL ADDITIONS	<u>1,258</u>
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	<u>1,325</u>
Change in net position	(67)
Net position beginning of year	<u>33,058</u>
Net position end of year	<u>\$ 32,991</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Note 1. Summary of Significant Accounting Policies

The Farragut Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the City of Farragut, Iowa, and the agricultural area in Fremont County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District also reports two non-major proprietary funds:

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

The Internal Service Fund is used to account for the employee's flexible spending plan. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Position and the Statement of Activities.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues. When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned, and then unassigned fund balances.

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

The District maintains its financial records during the fiscal year on a cash basis. At the end of the fiscal year, for reporting purposes, the District prepares the financial statements on an accrual basis by making memorandum adjusting entries to the cash basis financial records.

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

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-15 years

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

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

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

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

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

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

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

Unassigned - All amounts not included in the preceding classification.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014 the District exceeded its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

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

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Government Obligations Portfolio which are valued at an amortized cost of \$64,166 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor’s Financial Services.

Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise: School Nutrition	\$ 60,945
Capital Projects: Statewide Sales, Services, and Use Tax	General	172,039
Total		\$ 232,984

The School Nutrition Fund is repaying the General Fund for salaries and benefits of the current year and prior years that have not been repaid.

The General Fund is repaying the Capital Projects: Statewide Sales, Services, and Use Tax Fund for funds borrowed to repay ISCAP and a short term loan in a prior year.

Note 4. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	<u>\$ 71,158</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

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

Note 5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by an annual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the fiscal year. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The series 2013-2014 ONE included taxable warrants only. The interest rates on the Series 2013-2014 ONE warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 105 basis points. The LIBOR rate at June 30, 2014 was 0.1524%. A summary of the District’s ISCAP activity for the year ended June 30, 2014 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2013-2014 ONE	6/26/2013	12/1/2014	\$ -	375,000	375,000	-

During the year ended June 30, 2014, the District paid \$2,261 of interest on the ISCAP warrants.

Note 6. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 17,569	-	-	17,569
Less accumulated depreciation	16,556	92	-	16,648
Business type activities capital assets, net	<u>\$ 1,013</u>	<u>(92)</u>	<u>-</u>	<u>921</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,020	-	-	15,020
Total capital assets not being depreciated	15,020	-	-	15,020
Capital assets being depreciated:				
Buildings	2,665,054	216,703	-	2,881,757
Land improvements	363,818	2,500	-	366,318
Machinery and equipment	1,500,773	206,012	117,992	1,588,793
Total capital assets being depreciated	4,529,645	425,215	117,992	4,836,868
Less accumulated depreciation for:				
Buildings	1,505,615	84,855	-	1,590,470
Land improvements	310,211	4,230	-	314,441
Machinery and equipment	1,342,281	92,838	117,992	1,317,127
Total accumulated depreciation	3,158,107	181,923	117,992	3,222,038
Total capital assets being depreciated, net	1,371,538	243,292	-	1,614,830
Governmental activities capital assets, net	\$ 1,386,558	243,292	-	1,629,850

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 3,137
Other	4,752
Support services:	
Instructional staff	7,753
Administration	5,150
Operation and maintenance of plant	7,642
Transportation	64,404
	92,838
Unallocated depreciation	89,085
Total governmental activities depreciation expense	\$ 181,923
Business type activities:	
Food service operations	\$ 92

Note 7. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Revenue bonds	\$ 695,000	-	50,000	645,000	55,000
Bus lease	-	150,625	-	150,625	21,348
Termination benefits	72,813	-	23,493	49,320	13,671
Net OPEB liability	58,208	15,801	-	74,009	-
Total	\$ 826,021	166,426	73,493	918,954	90,019

Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2011			
	Interest Rates	Principal	Interest	Total
2015	2.50 %	\$ 55,000	20,925	75,925
2016	2.50	55,000	19,550	74,550
2017	3.00	60,000	18,175	78,175
2018	3.00	60,000	16,375	76,375
2019	3.25	65,000	14,575	79,575
2020-2024	3.25-3.75	350,000	39,325	389,325
Total		\$ 645,000	128,925	773,925

The District has pledged future statewide sales, services and use tax revenues to repay the \$770,000 of bonds issued in July 2011. The bonds were issued for the purpose of financing an HVAC project for the District. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the district and are payable through 2024. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 41% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$773,925. For the current year principal of \$50,000 and interest of \$21,925 was paid on the bonds and total statewide sales, services and use tax revenues were \$185,048.

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

- a) \$77,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.

- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose

Bus Lease

During the year ended June 30, 2014 the District entered into a capital lease for two buses with De Lage Landen Public Finance LLC for 3 years at 2.49% interest. This lease is payable from the Capital Projects: Physical Plant and Equipment Levy Fund. Details of the Districts June 30, 2014 bus lease indebtedness are as follows:

Year Ending June 30,	Bus Lease Dated November 15, 2013				
	Interest Rates	Principal	Interest	Total	
2015	2.49 %	\$ 21,348	3,751	25,099	
2016	2.49	21,879	3,219	25,098	
2017	2.49	107,398	2,674	110,072	
		<u>\$ 150,625</u>	<u>9,644</u>	<u>160,269</u>	

Termination Benefits

The District offered a voluntary early retirement plan to its full-time licensed non-administrator employees during fiscal year 2013. Eligible employees were to be at least age fifty-five years old and have served as a public school employee for the Farragut Community School District for fourteen years. Eligible employees were required to submit an application to the District Administrative Office before April 15th, 2013. The application for early retirement was subject to approval by the Board of Education.

Early retirement benefits included 50% of the employee’s 2012-2013 contracted base salary and \$75 for each unused sick leave days up to a maximum of 150 days, which shall be held by the District applied to health insurance premiums for the retiree until the amount is exhausted or the retiree reaches age of 65.

At June 30, 2014, the District has obligations to two participants with a total liability of \$49,320. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$23,493.

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District’s contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$136,535, \$146,890 and \$118,540 respectively, equal to the required contributions for each year.

Note 9. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 24 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

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

Annual required contribution	\$ 19,827
Interest on net OPEB obligation	1,455
Adjustment to annual required contribution	(4,195)
Annual OPEB cost	<u>17,087</u>
Amortization of unfunded actuarial accrued liability	<u>(1,286)</u>
Increase in net OPEB obligation	15,801
Net OPEB obligation - beginning of year	<u>58,208</u>
Net OPEB obligation - end of year	<u><u>\$ 74,009</u></u>

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

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

Year Ended June 30,	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 16,818	0.0%	\$ 42,598
2013	18,237	14.4	58,208
2013	17,087	7.5	74,009

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 \$144,142, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$144,142. The covered payroll (annual payroll of active employees covered by the plan) was \$1,099,060, and the ratio of the UAAL to the covered payroll was 13.1%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan presented as Required Supplementary Information in the section following the Notes to the Financial Statements, 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 that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The health cost trend rate for basis of the actuarial was 6% per year.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from 2006 Society of Actuaries Study. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. Risk Management

The District is a member in the Iowa School Employees Benefits Association(ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, and prescription drugs. District contributions to ISEBA for the year ended June 30, 2014 were \$236,221.

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

Note 11. 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 \$89,362 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Categorical Funding

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

Program	Amount
Limited english proficiency	\$ 1,288
Iowa early intervention block grant	1,876
Beginning administrator mentoring and induction program	1,500
Beginning teacher mentoring and induction program	34
Professional development for model core curriculum	4,884
Teacher salary supplement	38,507
Professional development	3,368
State decategorization grant	2,084
Returning dropouts and dropout prevention programs	33,521
Successful progression for early readers	13,334
Teacher leadership grant	5,783
Total	\$ 106,179

Note 13. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2014, the District exceeded its General Fund unspent authorized budget.

Note 14. Deficit Net Position/Fund Balance

At June 30, 2014, the Nutrition Fund had deficit unrestricted net position of \$40,893 and deficit total net position of \$39,972. The District had two negative accounts in the Student Activity Fund with a total deficit unassigned fund balance of \$1,598.

Note 15. Prospective Accounting Change

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

Note 16. Detailed Reconciliation of Governmental Fund Balances to Net Position

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

	Net investment in Capital Assets	Debt Service	Management Levy	Unassigned/ Unrestricted
Fund Balance (Exhibit C)	\$ -	76,254	58,827	288,083
Capital assets, net of accumulated depreciation	1,629,850	-	-	-
Revenue bond capitalized indebtedness	(645,000)	-	-	-
Bus lease capitalized indebtedness	(150,625)	-	-	-
Income surtax	-	-	-	105,546
Accrued interest payable	-	(2,333)	-	-
Termination benefits payable	-	-	(49,320)	-
Blending of the internal service fund	-	-	-	2,444
Unassigned fund balance for student activities	-	-	-	(1,598)
Net OPEB liability	-	-	-	(74,009)
Net position (Exhibit A)	\$ 834,225	73,921	9,507	320,466

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 2,935,493	35,696	2,971,189	2,997,580	2,997,580	(26,391)
Intermediate sources	4,620	-	4,620	2,400	2,400	2,220
State sources	1,088,134	774	1,088,908	914,484	914,484	174,424
Federal sources	65,899	50,166	116,065	217,579	217,579	(101,514)
Total revenues	4,094,146	86,636	4,180,782	4,132,043	4,132,043	48,739
Expenditures/Expenses:						
Instruction	2,192,949	-	2,192,949	2,610,000	2,610,000	417,051
Support services	1,356,372	-	1,356,372	1,384,000	1,384,000	27,628
Non-instructional programs	-	84,633	84,633	100,000	100,000	15,367
Other expenditures	403,081	-	403,081	554,989	554,989	151,908
Total expenditures/expenses	3,952,402	84,633	4,037,035	4,648,989	4,648,989	611,954
Excess(Deficiency) of revenues over(under) expenditures/expenses	141,744	2,003	143,747	(516,946)	(516,946)	660,693
Other financing sources, net	154,925	-	154,925	-	-	154,925
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	296,669	2,003	298,672	(516,946)	(516,946)	815,618
Balances beginning of year	811,062	(41,975)	769,087	769,338	769,338	(251)
Balances end of year	\$ 1,107,731	(39,972)	1,067,759	252,392	252,392	815,367

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

During the year ended June 30, 2014, the District exceeded its General Fund unspent authorized budget.

FARRAGUT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 139,709	\$ 139,709	0.0%	\$ 1,611,000	8.7%
2011	July 1, 2009	-	137,329	137,329	0.0	1,372,311	10.0
2012	July 1, 2009	-	137,329	137,329	0.0	1,301,630	10.6
2013	July 1, 2012	-	147,964	147,964	0.0	1,226,792	12.1
2014	July 1, 2012	-	144,142	144,142	0.0	1,099,060	13.1

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

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

	Special Revenue			Debt Service	Total
	Management Levy	Student Activity	Total		
ASSETS					
Cash and pooled investments	\$ 58,824	125,612	184,436	77,004	261,440
Receivables:					
Property tax					
Delinquent	3	-	3	-	3
Succeeding year	50,000	-	50,000	-	50,000
TOTAL ASSETS	<u>\$ 108,827</u>	<u>125,612</u>	<u>234,439</u>	<u>77,004</u>	<u>311,443</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	-	-	750	750
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	50,000	-	50,000	-	50,000
Fund balances:					
Restricted for:					
Management levy purposes	58,827	-	58,827	-	58,827
Student activities	-	127,210	127,210	-	127,210
Debt service	-	-	-	76,254	76,254
Unassigned	-	(1,598)	(1,598)	-	(1,598)
Total fund balances	<u>58,827</u>	<u>125,612</u>	<u>184,439</u>	<u>76,254</u>	<u>260,693</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 108,827</u>	<u>125,612</u>	<u>234,439</u>	<u>77,004</u>	<u>311,443</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue			Debt Service	Total
	Management Levy	Student Activity	Total		
REVENUES:					
Local sources:					
Local tax	\$ 749	-	749	-	749
Other	4,902	131,748	136,650	2,215	138,865
TOTAL REVENUES	5,651	131,748	137,399	2,215	139,614
EXPENDITURES:					
Current:					
Instruction:					
Regular	14,634	-	14,634	-	14,634
Other	-	113,839	113,839	-	113,839
Support services:					
Administration	47,170	-	47,170	-	47,170
Operation and maintenance of plant	29,645	-	29,645	-	29,645
Transportation	8,845	-	8,845	-	8,845
Long-term debt:					
Principal	-	-	-	50,000	50,000
Interest and fiscal charges	-	-	-	24,185	24,185
TOTAL EXPENDITURES	100,294	113,839	214,133	74,185	288,318
Excess(Deficiency) of revenues over(under) expenditures	(94,643)	17,909	(76,734)	(71,970)	(148,704)
Other financing sources:					
Transfer in	-	-	-	72,758	72,758
Change in fund balances	(94,643)	17,909	(76,734)	788	(75,946)
Fund balances beginning of year	153,470	107,703	261,173	75,466	336,639
Fund balances end of year	\$ 58,827	125,612	184,439	76,254	260,693

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 153,171	94,137	247,308
Receivables:			
Property tax			
Delinquent	-	652	652
Succeeding year	-	40,289	40,289
Due from other funds	172,039	-	172,039
Due from other governments	33,257	-	33,257
TOTAL ASSETS	\$ 358,467	135,078	493,545
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 480	-	480
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	40,289	40,289
Fund balances:			
Restricted for:			
School infrastructure	357,987	-	357,987
Physical plant and equipment	-	94,789	94,789
Total fund balances	357,987	94,789	452,776
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 358,467	135,078	493,545

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	37,439	37,439
Other	108	323	431
State sources	185,048	-	185,048
TOTAL REVENUES	185,156	37,762	222,918
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	60,509	12,616	73,125
Operation and maintenance of plant	4,117	-	4,117
Transportation	26,096	177,484	203,580
Capital outlay	239,534	-	239,534
TOTAL EXPENDITURES	330,256	190,100	520,356
Deficiency of revenues under expenditures	(145,100)	(152,338)	(297,438)
Other financing sources(uses):			
Capital lease proceeds	-	150,625	150,625
Transfer out	(72,758)	-	(72,758)
Total other financing sources(uses)	(72,758)	150,625	77,867
Change in fund balances	(217,858)	(1,713)	(219,571)
Fund balances beginning of year	575,845	96,502	672,347
Fund balances end of year	\$ 357,987	94,789	452,776

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics	\$ 11,457	41,769	29,344	23,882
Track	12	-	-	12
Pep Club	3,453	3,388	5,478	1,363
Cheerleaders	1,056	-	-	1,056
HS Cheerleaders	2,536	-	-	2,536
Danz Team	939	-	-	939
Drama	5,306	556	495	5,367
French	17	-	-	17
FFA	3,833	21,653	17,571	7,915
FCCLA	2,133	481	1,004	1,610
Yearbook	570	6,824	6,287	1,107
Miscellaneous Activities	1,347	200	493	1,054
Vocal Music	1,881	-	-	1,881
Resale	17,563	13,438	8,477	22,524
Art Resale	582	2,961	3,270	273
Student Council	414	1,893	63	2,244
Concessions	307	22,289	22,586	10
Instrumental Music	85	190	156	119
Tournament Fund	9,034	6,045	7,186	7,893
Vending	5,321	-	709	4,612
Pictures	1,084	-	1,000	84
Class of 2013	2,527	-	714	1,813
Class of 2014	3,578	3,079	5,158	1,499
Class of 2015	4,376	3,104	2,821	4,659
Class of 2016	810	2,947	321	3,436
Class of 2017	-	458	348	110
Class of 2018	-	473	-	473
Investments	26,835	-	-	26,835
Get Well/Memorial Donations	(1,498)	-	50	(1,548)
Honor Society	2,135	-	258	1,877
CPR	10	-	-	10
Playground	-	-	50	(50)
Total	\$ 107,703	131,748	113,839	125,612

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

		Private Purpose Trust - Scholarship Fund										
		Helen Limbacher Memorial	Harold Penwell Memorial	W.F. & Lucile Dreyer Memorial	Bruce Gruber Memorial	Clark - Campbell Memorial	Class of 48 Scholarship	Scott Memorial	Richards Memorial	Elizabeth O'Brien Memorial	Miscellaneous	Total
ASSETS												
Cash and pooled investments	\$	2,455	20,597	2,127	202	2,513	25	2,500	500	1,183	889	32,991
LIABILITIES		-	-	-	-	-	-	-	-	-	-	-
NET POSITION												
Restricted for scholarships	\$	2,455	20,597	2,127	202	2,513	25	2,500	500	1,183	889	32,991

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Private Purpose Trust - Scholarship Fund										Total
	Helen Limbacher Memorial	Harold Penwell Memorial	W.F. & Lucile Dreyer Memorial	Bruce Gruber Memorial	Clark - Campbell Memorial	Class of 48 Scholarship	Scott Memorial	Richards Memorial	Elizabeth O'Brien Memorial	Miscellaneous	
ADDITIONS:											
Local sources:											
Interest	\$ 7	46	5	-	7	-	-	-	4	189	258
Contributions	-	-	-	-	-	-	1,000	-	-	-	1,000
TOTAL ADDITIONS	7	46	5	-	7	-	1,000	-	4	189	1,258
DEDUCTIONS:											
Instruction:											
Regular:											
Scholarships awarded	200	-	-	-	125	-	1,000	-	-	-	1,325
Change in net position	(193)	46	5	-	(118)	-	-	-	4	189	(67)
Net position beginning of year	2,648	20,551	2,122	202	2,631	25	2,500	500	1,179	700	33,058
Net position end of year	\$ 2,455	20,597	2,127	202	2,513	25	2,500	500	1,183	889	32,991

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 2,090,790	1,911,961	1,849,665	1,595,369	1,504,397	1,483,012	1,270,110	1,158,628	1,157,033	1,170,737
Tuition	406,789	420,652	515,338	144,609	294,016	236,566	236,834	152,738	147,971	132,128
Other	437,914	462,108	796,975	337,143	161,352	172,695	171,622	186,833	187,644	166,577
Intermediate sources	4,620	2,108	600	-	-	-	-	-	-	-
State sources	1,088,134	1,017,911	966,492	1,146,805	1,044,757	1,171,283	1,371,746	1,329,290	1,212,495	1,106,808
Federal sources	65,899	115,069	91,262	166,510	286,231	62,135	113,815	118,282	172,347	145,366
Total	\$ 4,094,146	3,929,809	4,220,332	3,390,436	3,290,753	3,125,691	3,164,127	2,945,771	2,877,490	2,721,616
Expenditures:										
Instruction	\$ 2,192,949	2,515,570	2,739,882	2,076,103	2,064,542	1,899,115	1,973,650	1,854,019	1,752,966	1,728,973
Support services:										
Student	72,499	58,822	61,614	56,234	64,406	50,376	41,456	45,467	42,975	43,245
Instructional staff	104,853	152,859	117,017	116,665	126,603	84,670	83,512	82,493	95,038	101,722
Administration	538,137	523,267	603,111	654,177	524,899	460,691	435,581	465,806	443,897	384,918
Operation and maintenance of plant	228,574	267,947	234,696	228,559	245,558	221,408	248,816	239,083	321,961	259,290
Transportation	412,309	203,820	205,422	159,752	179,431	133,534	127,690	186,688	172,451	212,024
Capital outlay	239,534	71,558	378,741	330,696	35,123	43,458	202,662	111,370	53,506	57,576
Long-term debt:										
Principal	50,000	40,000	35,000	-	-	-	80,000	75,000	75,000	70,000
Interest and fiscal charges	24,185	25,065	23,075	-	-	-	2,920	3,989	6,932	9,683
Other expenditures:										
AEA flow-through	89,362	86,959	86,834	101,997	102,458	94,294	92,952	91,571	88,117	86,793
Total	\$ 3,952,402	3,945,867	4,485,392	3,724,183	3,343,020	2,987,546	3,289,239	3,155,486	3,052,843	2,954,224

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited in accordance with U.S. generally accepted auditing standard 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 Farragut Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Farragut Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Farragut Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Farragut Community School District's internal control over financial reporting.

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 over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be 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 misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as item I-A-14 through I-E-14 to be material weaknesses.

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 deficiencies described in Part I of the accompanying Schedule of Findings as items I-F-14 through I-H-14 to be significant deficiencies.

Compliance and Other Matters

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

Farragut Community School District's Responses to Findings

Farragut Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Farragut Community School District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 23, 2015
Newton, Iowa

FARRAGUT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted individuals performing incompatible duties in the following areas.

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Wire transfers - processing and approving.
- 6) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution, entering contracts into the system and approval.
- 7) Transfers - preparing and approving.
- 8) Financial reporting - preparing, reconciling and approving.
- 9) Journal entries - writing, posting and approving
- 10) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

Response - The District will work to segregate duties to the best of our abilities to help maximize internal controls.

Conclusion - Response accepted.

I-B-14 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital

assets are all pieces which the accounting personnel is expected to be completing. Necessary adjustments to be made for payment on long term debt and prior year payables were not made causing misstatements in the amount of expense recognized. Combining entries from subsidiary records were made to incorrect funds. Bank reconciliations were not being completed timely by District staff for the Nutrition Fund.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every District. The necessity of the numerous adjustments proposed by the Auditor for the financial statements may indicate that the District needs to evaluate its procedures for converting financial records to GAAP at year end. The District should reconcile bank statements to financial statement balances on a monthly basis.

Response - The District is now reconciling statements monthly and working to ensure all expenditures and receivables are posted in a timely matter to ensure reliable financial statements.

Conclusion - Response accepted.

- I-C-14 Journal Entry Documentation - We noted the District did not maintain supporting documentation for journal entries made through the year by the District's accounting personnel.

Recommendation - The District should implement procedures and controls ensuring documentation and support of all journal entries made by central office staff are maintained and stored by the District. In addition, all data input to the District's uniform financial accounting system made by the central office staff should be supported by sufficient documentation.

Response - The District is now maintaining documentation on all journal entries, expenditures and revenues received.

Conclusion - Response accepted.

- I-D-14 Grant Coding - We noted that numerous adjustments were required at year end to code and clear expenses in various grant accounts. The reclassifying of expenses gives the appearance that the grants may not be monitored throughout the year and the District is finding already existing purchases that might qualify for the grant.

Recommendation - The District should determine who and what costs are appropriate prior to payment and operation of the grant. The individual in charge of the grants should be communicating with the accounting department and consistently monitoring financial reports to ensure that the grant is spent for appropriate items as well as in the correct time period.

Response - The Superintendent, Business Manager, and Principal are meeting to go over each grant to ensure expenses are coded appropriately and documentation is maintained.

Conclusion - Response accepted.

- I-E-14 Subsidiary Record Keeping - We noted during our audit that the District's Student Activity Fund is currently using a "one write system" for record keeping. The system originally provided an option to write the check which had a carbon strip that would simultaneously record the check to the check register and onto a ledger card.

However, the District is currently not using the "one write system" to maximize efficiency. The District is currently writing checks, typing a check listing in the

disbursement ledger and then writing the same transaction on the ledger card. The transactions are entered again since the “one write system” does not integrate into the District’s Uniform Financial Accounting system.

It appeared that the District was not reconciling the Student Activity Fund subsidiary records to the District’s Uniform Financial Accounting system in a timely manner.

Recommendation - The District needs to integrate the financial transactions of the Student Activity Fund on the District’s Uniform Financial Accounting system. District personnel should receive additional training on how to properly maintain the official records on the District’s Uniform Financial Accounting system.

The District may maintain subsidiary records for District activities, but all official records of the District shall be maintained on the District’s Uniform Financial Accounting system. If subsidiary records are maintained, the records must be reconciled to the official records monthly.

Response - The District is working to transfer all records in the Activity Fund to the software accounting to maintain as its primary financial records. Both the subsidiary records and the software are balanced monthly.

Conclusion - Response accepted.

I-F-14 Cash to Students for Trips - We noted during our audit that the District hands out cash to students for meals on District sponsored trips. However, the District does not have procedures in place to document who received money and what amount was given.

Recommendation - The District should have documentation of who received the money and a signature by the student verifying the amount received. This sign off sheet should then be reconciled to the cash given to the sponsor at the end of the trip by the business office.

Response - The Superintendent, Principal and Business Manager will work together to ensure all cash disbursed is properly recorded and documented going forward.

Conclusion - Response accepted.

I-G-14 Credit Card Invoices - We noted instances of checks being written for credit card payments without an invoice for supporting documentation. We also noted that it appeared that credit card statements were not reviewed by an independent person confirming that the purchases were appropriate for the District.

Recommendation - The District should review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice. The District should also have an independent person having no authorization for use of credit cards and who does not have custody of credit cards review the purchases for propriety.

Response - Invoices and supporting documentation are now required on all credit card purchases. In addition, the credit cards are now maintained and must be checked out by the business manager to determine the source of the use of the card.

Conclusion - Response accepted.

I-H-14 Timesheets - We noted during our audit that timesheets were not always approved by a supervisor before payment of payroll.

Recommendation - The District should review policies and procedures regarding payroll to ensure that timesheets are being verified for accuracy in a timely manner by the employee's direct supervisor.

Response - Procedures have been implemented to ensure all timesheets have been reviewed and signed by the appropriate supervisors prior to payroll being processed.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget - The District exceeded its General Fund unspent authorized budget for the year ended June 30, 2014 by approximately \$803,010.

Recommendation - The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the General Fund unspent authorized budget.

Response - The District will monitor its certified budget amounts and will amend its budget accordingly so that disbursements will not exceed the amount budgeted in the future. Also, the District has met with the Iowa DOE and SBRC to resolve the unspent authorized budget, a plan was submitted, and has been accepted.

Conclusion - Response accepted.

II-B-14 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees and board members for meals while traveling which lacked a detailed receipt. According to board policy #401.10, employees and officers using a credit card must submit a detailed receipt in addition to a credit card receipt when requesting reimbursement.

Recommendation - The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - Invoices and supporting documentation are now required on all credit card purchases. In addition, the credit cards are now maintained and must be checked out by the business manager to determine the source of the use of the card.

Conclusion - Response accepted.

II-D-14 Business Transactions - No business transactions between the District and District officials 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 should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the board minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board Meeting as required by 279.35 of the Code of Iowa.

Response - Procedures have been implemented to ensure board minutes are published in a timely manner, including sending the minutes via e-mail to document the date transmitted to the publisher.

Conclusion - Response accepted.

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

II-H-14 Supplementary Weighting - We noted no variances in supplementary weighting data certified to the Department of Education.

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

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

II-K-14 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds. However we noted certain findings as follows:

Unallowable Expenses - We noted Teacher Salary Supplement expenses that do not appear to be allowable. We question these expenses in the amount of \$30,767.97, the following shows the adjustment made by the District to the ending restricted balance for teacher salary supplement program:

	<u>Restricted Balance on District's CAR</u>	<u>Amount of Expense Adjustment</u>	<u>Audited Ending Restricted Balance</u>
Teacher Salary Supplement	\$ 7,739	\$ 30,768	\$ 38,507

Recommendation - The District should review their procedures to ensure expenditures coded to teacher salary supplement are allowable per Chapter 281-98.25 of the Code of Iowa.

Response - The District will review expenditures made to the teacher salary supplement to ensure they comply with Chapter 281-98.25 of the Code of Iowa.

Conclusion - Response accepted.

TSS Carryover - We noted that the District increased its teacher salary supplement carryover balance by \$24,993 during fiscal 2014. This increase in carryover balance appears to be more than a de minimus amount allowed by Chapter 281-98.25 of the Code of Iowa.

Recommendation - The District's teacher salary supplement allocation is to be fully expended in the fiscal year for which it is allocated. However, in the event there is a small amount remaining and it would not be cost effective to allocate the remainder the

District can carryforward the remainder and add it to the amount to be allocated in the subsequent fiscal year. The District should add its additional carryover to its 2015 allocation to be spent out in fiscal 2015 to be in compliance with Chapter 281-98.25 of the code of Iowa.

Response - The District will work with the auditors to ensure the carryover balance is added to the 2015 allocation and is in compliance with Chapter 281-98.25 of the Code of Iowa.

Conclusion - Response accepted.

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

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

Beginning Balance		\$ 575,845
Sales tax revenue	\$ 185,048	
Other local revenue	108	185,156
		<u>761,001</u>
Expenditures/Transfers out:		
School infrastructure	239,534	
Equipment	42,840	
Other	47,882	
Transfers to Other Funds:		
Debt service fund	72,758	403,014
		<u>403,014</u>
Ending balance		<u>\$ 357,987</u>

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

II-M-14 Signing of Contracts - We noted during our audit that the Superintendent signed a bus lease entered into by the District. We also noted that the Athletic Director was signing athletic officiating contracts. Per Chapter 291.1 of the Code of Iowa the Board President should sign all contracts entered into by the District.

Recommendation - The Board President should sign all contract entered into by the District per Chapter 291.1 of the Code of Iowa.

Response - The Board President will sign all future contracts entered into by the District.

Conclusion - Response accepted.

II-N-14 Financial Condition - We noted at June 30, 2014, the Nutrition Fund had a deficit unrestricted net position of \$40,893 and a total deficit net position of \$39,972. The District had two accounts in the Student Activity Fund with a deficit balance of \$1,598.

Recommendation - The District should investigate alternatives to eliminate the deficit balances.

Response - The District will work to eliminate the deficits in the Student Activity Fund and the Nutrition Fund. We are looking for other revenues and sources in an attempt to maintain positive balances in all of these accounts. In addition, the District has implemented prior approval for student activity fund expenditures.

Conclusion - Response accepted.

- II-O-14 Interfund Loans - We noted during our audit that the District has an interfund loan that was on the balance sheet in the prior year and still on the current year balance sheets. As of June 30, 2014, the District has loans between the General Fund and Nutrition Fund and Capital Projects: Statewide Sales, Services and Use Tax to the General Fund that have not been repaid.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year-end financial statements must be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must seek external borrowing options to repay the interfund loans.

Recommendation - The District should seek and obtain external borrowings to comply with the declaratory ruling in order to repay the interfund loan.

Response - The District will secure outside loans to repay the balance of the interfund loans that cannot be repaid out of the current balances in the funds. The interfund loan in the Nutrition Fund will be taken into consideration when setting the hot lunch prices for the upcoming fiscal year.

Conclusion - Response accepted.

- II-P-14 Teacher Salary Supplement - We noted during our audit that the TSS (Teacher Salary Supplement) portion of wages appears to be included in the employee contract, however, it is not specifically identified as such. We also noted that the District subsequently journal entries expenses from regular salaries and benefits to the corresponding TSS account. This gives the appearance that the TSS money is not monitored throughout the year.

Recommendation - The District should code TSS expenses as they are incurred throughout the year as part of its regular payroll process. The District should also keep supporting documentation of how the TSS amounts are allocated to each teacher is calculated as support for the appropriate amounts paid.

Response - The District will run journal entries to allocate TSS dollars for FY15, however, we will begin allocating TSS dollars on a monthly basis as part of payroll in FY16.

Conclusion - Response accepted.

- II-Q-14 Student Activity Fund - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library

book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). More specific examples of these instances of questioned items and recommendation are as follows:

Pictures Account - This account appears to be used to account for commission revenues received from school pictures.

Recommendation - Commissions are not an allowable revenue source per Iowa Code Chapter 98.70(1). Commissions revenues should be received into the General Fund.

Response - All commissions received included those from school pictures, box tops for education, etc. are now being received to the General Fund.

Conclusion - Response accepted.

Investment Account - We noted that the District is maintaining an investment account in the Student Activity Fund. This account is used to account for accumulated interest from Student Activity Fund bank accounts.

Recommendation - The Student Activity Fund is to be used for cocurricular and extracurricular activities. The interest accumulated should be allocated to the various accounts within the Student Activity Fund.

Response - The dollars currently held in the investment account will be allocated to the various accounts and divided among the accounts as the interest is received going forward.

Conclusion - Response accepted.

Resale - We noted a "Resale" account within the Student Activity Fund. The Resale account does not appear to be a bona fide student run organization. It appears that the District utilizes this account to record the resale fundraising activities of several individual Student Activity Fund accounts.

Recommendation - The District should record each individual club's fundraising activities in their respective Student Activity Fund accounts.

Response - The dollars held in the account called "resale" are actually dollars earned through fundraising. Accounts will be set up so that club's activities are maintained in the respective club account.

Conclusion - Response accepted.

Inactive Accounts - We noted during our audit that the Student Activity Fund has an old graduated class account from 2013, with the balance still on the District's books as of June 30, 2014.

Recommendation - At year end, class officers of the graduating class should decide what happens with unused class funds. The remaining moneys in the graduating class account should be reclassified to the proper fund according to the class' wishes. If unused funds are to remain in the Student Activity Fund, the remaining funds should be redistributed amongst other activity fund accounts or used for startup funds for the next incoming class. Since the District is unable to determine what the wishes were for previous classes, the remaining moneys in the class accounts should be reallocated amongst the

other Student Activity Fund accounts based on recommendations made by the Activities Director and approved by the District's Board of Directors.

Response - Inactive accounts with no way to determine prior wishes for the money will be allocated between the remaining existing active accounts.

Conclusion - Response accepted.

Scholarship Awards: We noted during our audit that a scholarship check was written from the Pictures account in the Student Activity Fund.

Recommendation - The Private Purpose Trust Fund is more appropriate for scholarship revenues and expenditures. If these groups intend on awarding scholarships each year, the amount of money from fundraising intended for the scholarships should be receipted directly into the Private Purpose Trust Fund.

Response - We will follow the auditor's recommendation and finish this account out by issuing one last scholarship.

Conclusion - Response accepted.