

**FOREST CITY COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2014**

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## **Introductory Section**

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# Board of Education and School District Officials

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As of June 30, 2014

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Education</b>		
David Bartlett	President	September, 2017
Cindy Carter	Vice President	September, 2017
Keila Buffington	Board Member	September, 2015
Eric Kingland	Board Member	September, 2017
Gary Ludwig	Board Member	September, 2015
Bruce Mielke	Board Member	September, 2015
Pat Hobbs	Board Member	September, 2017
<b>School Officials</b>		
Darwin Lehmann	Superintendent	Indefinite
Steven Rollefson	District Secretary/Treasurer and Business Manager	Indefinite

**Financial Section**



## **Independent Auditor's Report**

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Board of Education  
Forest City Community School District  
Forest City, Iowa

### **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 Forest City Community School District, Forest City, 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, as 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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinion**

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 Forest City Community School District as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 13 and 38 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Forest City 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 of the former Forest City Community School District for the year ended June 30, 2013 (which are not presented herein) and expressed an unmodified opinion on those financial statements. The supplementary information on pages 40 through 46, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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. The information has been subjected to the auditing procedures applied in our 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 auditing standards generally accepted in the United States of America. 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 a report dated February 2, 2015 on our consideration of Forest City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forest City Community School District's internal control over financial reporting and compliance.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
February 2, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Forest City Community School District merged with Woden-Crystal Lake Community School District effective July 1, 2013. Comparisons made throughout the management's discussion and analysis are based on fiscal year 2014 activity of the newly merged Forest City Community School District and the restated combined fiscal year 2013 activity of the former Forest City and Woden-Crystal Lake Community School Districts (see Note 15).

### FINANCIAL HIGHLIGHTS

- General Fund revenue decreased from \$14,010,553 in fiscal year 2013 to \$13,477,729 in fiscal year 2014 while General Fund expenditures decreased from \$13,786,154 in fiscal year 2013 to \$13,323,122 in fiscal year 2014. The District's General Fund balance increased from \$2,220,088 at the end of fiscal year 2013 to \$2,238,810 at the end of fiscal year 2014, a 0.8% increase from the prior year.
- The fiscal year 2014 General Fund revenue decrease was primarily attributable to decreases in local revenue due to the merger. In fiscal year 2013, Woden-Crystal Lake students attended the former Forest City Community School District under a whole grade-sharing agreement. The fiscal year 2014 decrease in expenditures was primarily related to an effort made by the District to cut instruction expenditures and the merger.
- The District passed a resolution to continue participation in the Instructional Support Program for another five years starting with the 2009-2010 school year. The additional funding will be determined annually and shall not exceed 10% of the total regular program cost for the budget year, which will on an annual basis raise approximately \$550,000. The monies received may be used for implementation of the District's technology program, including the purchase of computer hardware and software for the start of a 1:1 computer program in the middle and high schools, general maintenance and upgrading of equipment, staff development including the student management system and for the use or purchase of new technologies that have been found to enhance student achievement or delivery of instruction.
- Local option sales tax collected for each county is pooled statewide and distributed to the District primarily based on enrollment.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Cerro Gordo County on March 4, 2003 that passed with a 69% yes vote and was effective as of July 1, 2003. This source of funding will produce approximately \$13,973 for the 2014-2015 school year.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Hancock County on April 1, 2003 that passed with a 67% yes vote and was effective as of July 1, 2003. This source of funding will produce approximately \$120,512 for the 2014-2015 school year.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Winnebago County on January 20, 2004 that passed with a 75% yes vote and was effective as of July 1, 2004. This source of funding will produce approximately \$786,294 for the 2014-2015 school year.
- The District was involved in a Local Option Sales and Services Tax for School Infrastructure Election for Worth County on March 30, 2004 that passed with an 80% yes vote and was effective as of July 1, 2004. This source of funding will produce approximately \$44,537 for the 2014-2015 school year.

## 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 Forest City 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 Forest City 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 Forest City Community School District acts solely as an agent or custodian for the benefit of those outside of the District government.

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

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

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

**FIGURE A-1**

### FOREST CITY COMMUNITY SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

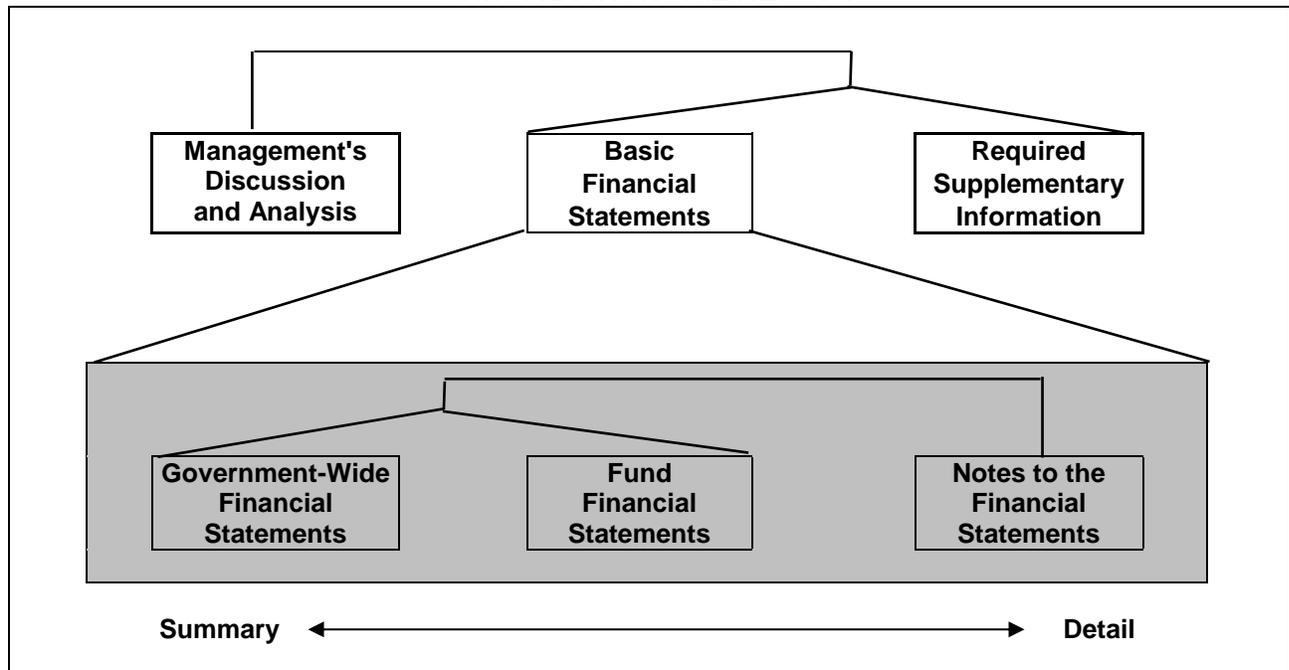


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>FIGURE A-2</b>				
<b>MAJOR FEATURES OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS</b>				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenue, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenue, expenses and changes in net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 revenue 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, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional nonfinancial 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 or by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show it is properly using certain revenue, such as federal grants.

The District has three kinds of funds:

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

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

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

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

The required financial statements for proprietary funds include a statement of net position, a statement of revenue, expenses and changes in net position and a statement of cash flows.

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

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

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

The required financial statements for fiduciary funds include a statement of fiduciary net position and a statement of changes in fiduciary net position.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position as of June 30, 2014 compared to June 30, 2013. June 30, 2013 balances include the restated combined balances of the former Forest City and Woden-Crystal Lake Community School Districts (see Note 15).

**FIGURE A-3  
CONDENSED STATEMENT OF NET POSITION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2013-2014
	2014	2013 (Restated)	2014	2013 (Restated)	2014	2013 (Restated)	
Current and other assets	\$ 11,754,473	\$ 10,683,865	\$ 113,690	\$ 105,463	\$ 11,868,163	\$ 10,789,328	10.0 %
Capital assets	10,551,173	9,638,105	59,608	65,735	10,610,781	9,703,840	9.3
<b>Total Assets</b>	<b><u>22,305,646</u></b>	<b><u>20,321,970</u></b>	<b><u>173,298</u></b>	<b><u>171,198</u></b>	<b><u>22,478,944</u></b>	<b><u>20,493,168</u></b>	<b><u>9.7</u></b>
Long-term liabilities	1,869,487	1,986,256	12,782	10,549	1,882,269	1,996,805	(5.7)
Other liabilities	2,016,740	1,704,299	46,799	50,231	2,063,539	1,754,530	17.6
<b>Total Liabilities</b>	<b><u>3,886,227</u></b>	<b><u>3,690,555</u></b>	<b><u>59,581</u></b>	<b><u>60,780</u></b>	<b><u>3,945,808</u></b>	<b><u>3,751,335</u></b>	<b><u>5.2</u></b>
<b>Deferred Inflows of Resources</b>	<b><u>5,005,035</u></b>	<b><u>3,773,025</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>5,005,035</u></b>	<b><u>3,773,025</u></b>	<b><u>32.7</u></b>
<b>Net Position</b>							
Net investment in capital assets	9,451,173	8,158,641	59,608	65,735	9,510,781	8,224,376	15.6
Restricted	1,882,413	2,556,550	—	—	1,882,413	2,556,550	(26.4)
Unrestricted	2,080,798	2,143,199	54,109	44,683	2,134,907	2,187,882	(2.4)
<b>Total Net Position</b>	<b><u>\$ 13,414,384</u></b>	<b><u>\$ 12,858,390</u></b>	<b><u>\$ 113,717</u></b>	<b><u>\$ 110,418</u></b>	<b><u>\$ 13,528,101</u></b>	<b><u>\$ 12,968,808</u></b>	<b><u>4.3 %</u></b>

The District's total net position increased 4.3% or approximately \$559,000, over the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased by approximately \$674,000, or 26.4%, over the prior year. The decrease was primarily a result of increased expenditures in the Capital Projects Fund.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$53,000, or 2.4%. This reduction in unrestricted net position was primarily a result of the District's net OPEB liability recorded in the current year.

Figure A-4 shows the changes in net position for the year ended June 30, 2014 as compared to the year ended June 30, 2013. June 30, 2013 activity includes the restated combined activity of the former Forest City and Woden-Crystal Lake Community School Districts (see Note 15).

**FIGURE A-4  
CHANGES IN NET POSITION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2013-2014
	2014	2013 (Restated)	2014	2013 (Restated)	2014	2013 (Restated)	
<b>Revenue</b>							
Program Revenue							
Charges for service	\$ 1,529,019	\$ 2,308,367	\$ 290,019	\$ 295,797	\$ 1,819,038	\$ 2,604,164	(30.1)%
Operating grants and contributions	1,915,017	1,755,379	372,923	357,681	2,287,940	2,113,060	8.3
Capital grants and contributions	908,748	353,999	—	—	908,748	353,999	156.7
General Revenue							
Property tax	4,921,572	5,432,688	—	—	4,921,572	5,432,688	(9.4)
Income surtax	641,008	487,265	—	—	641,008	487,265	31.6
Statewide sales, services and use tax	972,688	997,467	—	—	972,688	997,467	(2.5)
Unrestricted state grants	5,592,168	5,315,183	—	—	5,592,168	5,315,183	5.2
Unrestricted investment earnings	2,646	2,475	20	31	2,666	2,506	6.4
Other revenue	—	14,685	—	—	—	14,685	(100.0)
<b>Total Revenue</b>	<b>16,482,866</b>	<b>16,667,508</b>	<b>662,962</b>	<b>653,509</b>	<b>17,145,828</b>	<b>17,321,017</b>	<b>(1.0)</b>
<b>Expenses</b>							
Program Expenses							
Instruction	9,904,345	10,315,155	—	—	9,904,345	10,315,155	(4.0)
Support services	4,363,980	4,191,775	—	—	4,363,980	4,191,775	4.1
Noninstructional programs	—	—	659,663	683,642	659,663	683,642	(3.5)
Other expenses	1,050,700	1,107,063	—	—	1,050,700	1,107,063	(5.1)
General Expense							
Loss on disposal of capital assets	607,847	—	—	—	607,847	—	100.0
<b>Total Expenses</b>	<b>15,926,872</b>	<b>15,613,993</b>	<b>659,663</b>	<b>683,642</b>	<b>16,586,535</b>	<b>16,297,635</b>	<b>1.8</b>
<b>Change in Net Position</b>	<b>555,994</b>	<b>1,053,515</b>	<b>3,299</b>	<b>(30,133)</b>	<b>559,293</b>	<b>1,023,382</b>	<b>(45.3)</b>
Net Position - Beginning of Year, as restated (Note 15)	12,858,390	11,804,875	110,418	140,551	12,968,808	11,945,426	8.6
<b>Net Position - End of Year</b>	<b>\$ 13,414,384</b>	<b>\$ 12,858,390</b>	<b>\$ 113,717</b>	<b>\$ 110,418</b>	<b>\$ 13,528,101</b>	<b>\$ 12,968,808</b>	<b>4.3 %</b>

In fiscal year 2014, property tax and unrestricted state grants accounted for 63.8% of the governmental activities revenue while charges for service and operating grants and contributions accounted for almost 100.0% of business-type activities revenue. The District's total revenue was approximately \$17.2 million, of which approximately \$16.5 million was for governmental activities and \$0.7 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 1.0% decrease in revenue and a 1.8% increase in expenses. The decrease in revenue is primarily related to decreased charges for service due to the District reorganization. The former Forest City and Woden-Crystal Lake School Districts operated under a whole-grade sharing agreement in fiscal year 2013. The increase in expenses is primarily related to the loss on disposal of capital assets from the former Woden-Crystal Lake Community School District.

### Governmental Activities

Revenue for governmental activities was \$16,482,866 and expenses were \$15,926,872 for the year ended June 30, 2014.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services and other expenses for the year ended June 30, 2014 compared to the year ended June 30, 2013. June 30, 2013 activity includes the restated combined activity of the former Forest City and Woden-Crystal Lake Community School Districts (see Note 15).

**FIGURE A-5  
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES**

	Total Cost of Services			Net Cost of Services		
	2014	2013 (Restated)	Percentage Change 2013-2014	2014	2013 (Restated)	Percentage Change 2013-2014
Instruction	\$ 9,904,345	\$ 10,315,155	(4.0)%	\$ 7,073,309	\$ 6,957,182	1.7 %
Support services	4,363,980	4,191,775	4.1	3,360,750	3,641,876	(7.7)
Other expenses	1,050,700	1,107,063	(5.1)	532,182	597,190	(10.9)
<b>Total</b>	<b><u>\$ 15,319,025</u></b>	<b><u>\$ 15,613,993</u></b>	<b><u>(1.9)%</u></b>	<b><u>\$ 10,966,241</u></b>	<b><u>\$ 11,196,248</u></b>	<b><u>(2.1)%</u></b>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$1,529,019.
- Federal and state governments and local entities subsidized certain programs with grants and contributions totaling \$2,823,765.
- The net cost of governmental activities was financed with \$6,535,268 in property and other taxes, \$5,592,168 in unrestricted state grants and \$2,646 of unrestricted investment earnings.

### Business-Type Activities

Revenue for business-type activities during the year ended June 30, 2014 was \$662,962, representing a 1.4% increase over the prior year, while expenses totaled \$659,663, a 3.5% decrease from the prior year. The District's business-type activities includes the School Nutrition Fund. Revenue from these activities was comprised of charges for service, federal and state reimbursements and investment income.

The increase in revenue was primarily related to increased federal reimbursements. The decrease in expenses was primarily related to decreased costs of supplies.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Forest City 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 \$4,231,916, below last year's ending fund balances of \$4,711,735. The primary reason for the decrease in combined fund balances at the end of fiscal year 2014 is due to increased facilities acquisition and construction expenditures.

### Governmental Fund Highlights

- The General Fund balance increased from \$2,220,088 to \$2,238,810 primarily due to a decrease in instruction expenditures.
- The Capital Project Fund balance decreased from \$1,786,622 at the end of fiscal year 2013 to \$1,361,997 at the end of fiscal year 2014. The decrease is primarily due to an increase in facilities acquisition and construction expenditures.

### Proprietary Fund Highlights

School Nutrition Fund net position increased from \$110,418 as of June 30, 2013 to \$113,717 as of June 30, 2014, representing an increase of approximately 3.0%. Revenue increased from the prior year due to an increase in federal reimbursements for meals served. Expenses decreased from the prior year due to decreased supplies costs.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Forest City Community School District amended its budget one time to reflect additional operating costs.

The District's total revenue was \$1,311,046 less than total budgeted revenue, a variance of 7.1%. Revenue from intermediary sources was significantly less than anticipated.

Total expenditures were more than budgeted, due primarily to the District underbudgeting for support services expenditures and other expenditures.

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of June 30, 2014, the District had invested \$10,610,781, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 9.3% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$829,192.

The original cost of the District's capital assets was approximately \$24.0 million. Governmental funds account for approximately \$23.8 million, with the remainder of approximately \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$1,120,319 as of June 30, 2014 compared to \$93,611 reported as of June 30, 2013. The significant increase resulted from the continued construction of an athletic facility and updates to the high school and middle school started in the current year.

**FIGURE A-6  
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Percentage Change June 30, 2013-2014
	2014	2013 (Restated)	2014	2013 (Restated)	2014	2013 (Restated)	
Land	\$ 235,000	\$ 238,537	\$ —	\$ —	\$ 235,000	\$ 238,537	(1.5)%
Construction in progress	1,120,319	93,611	—	—	1,120,319	93,611	1,096.8
Buildings and improvements	8,342,901	8,528,518	—	—	8,342,901	8,528,518	(2.2)
Furniture and equipment	852,953	777,439	59,608	65,735	912,561	843,174	8.2
<b>Total</b>	<b><u>\$ 10,551,173</u></b>	<b><u>\$ 9,638,105</u></b>	<b><u>\$ 59,608</u></b>	<b><u>\$ 65,735</u></b>	<b><u>\$ 10,610,781</u></b>	<b><u>\$ 9,703,840</u></b>	<b><u>9.3 %</u></b>

### Long-Term Debt

As of June 30, 2014, the District had \$1,100,000 in general obligation bonds outstanding. This represents a decrease of approximately 19.4% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5% of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$17.6 million.

**FIGURE A-7  
OUTSTANDING LONG-TERM OBLIGATIONS**

Governmental Activities	Total District June 30,		Total Percentage Change June 30, 2013-2014
	2014	2013 (Restated)	
Refunding General Obligation Bonds	<b><u>\$ 1,100,000</u></b>	<b><u>\$ 1,365,000</u></b>	<b><u>(19.4)%</u></b>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The largest employer in the District, Winnebago Industries, continues to increase production and add employees.
- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools (allowable growth) will be predicated upon the condition of the national and state economy.
- District enrollment decreased by 5.45 students in the 2014-2015 school year. Under Iowa's school funding formula, District funding is highly dependent upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation. No positions will be replaced unless absolutely necessary for future staffing.

## **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 Steven Rollefson, Board Secretary/Business Manager, Forest City Community School District, 145 South Clark Street, Forest City, Iowa 50436.

## **Basic Financial Statements**

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## Statement of Net Position

As of June 30, 2014

	Governmental Activities	Business- Type Activities	Total
<b>Assets</b>			
Cash, cash equivalents and investments .....	\$ 5,516,220	\$ 77,654	\$ 5,593,874
Receivables			
Property Tax, Net of Allowance			
Current year delinquent .....	66,996	—	66,996
Succeeding year .....	5,005,035	—	5,005,035
Accounts .....	4,880	—	4,880
Due from other governments .....	1,147,286	12,666	1,159,952
Inventories .....	14,056	23,370	37,426
Capital assets, net of accumulated depreciation ...	<u>10,551,173</u>	<u>59,608</u>	<u>10,610,781</u>
<b>Total Assets .....</b>	<b><u>\$ 22,305,646</u></b>	<b><u>\$ 173,298</u></b>	<b><u>\$ 22,478,944</u></b>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>			
<b>Liabilities</b>			
Accounts payable .....	\$ 726,425	\$ 6,974	\$ 733,399
Salaries and benefits payable .....	1,289,646	38,988	1,328,634
Accrued interest payable .....	669	—	669
Unearned revenue .....	—	837	837
Long-Term Liabilities			
Portion Due Within One Year			
General obligation refunding bonds .....	265,000	—	265,000
Early retirement .....	92,631	—	92,631
Portion Due After One Year			
General obligation refunding bonds .....	835,000	—	835,000
Early retirement .....	326,029	—	326,029
Net OPEB liability .....	350,827	12,782	363,609
<b>Total Liabilities .....</b>	<b><u>3,886,227</u></b>	<b><u>59,581</u></b>	<b><u>3,945,808</u></b>
<b>Deferred Inflows of Resources</b>			
Unavailable property tax revenue .....	<u>5,005,035</u>	<u>—</u>	<u>5,005,035</u>
<b>Net Position</b>			
Net investment in capital assets .....	9,451,173	59,608	9,510,781
Restricted for			
Categorical funding .....	291,571	—	291,571
School infrastructure .....	1,033,313	—	1,033,313
Physical plant and equipment .....	328,684	—	328,684
Management levy purposes .....	129,239	—	129,239
Student activities .....	99,606	—	99,606
Unrestricted .....	<u>2,080,798</u>	<u>54,109</u>	<u>2,134,907</u>
<b>Total Net Position .....</b>	<b><u>13,414,384</u></b>	<b><u>113,717</u></b>	<b><u>13,528,101</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position .....</b>	<b><u>\$ 22,305,646</u></b>	<b><u>\$ 173,298</u></b>	<b><u>\$ 22,478,944</u></b>

See accompanying notes to the financial statements.

# Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue			Net (Expense), Revenue and Changes in Net Position		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
Instruction							
Regular .....	\$ 5,085,915	\$ 612,129	\$ 1,305,767	\$ —	\$ (3,168,019)	\$ —	\$ (3,168,019)
Special .....	2,733,457	433,249	61,906	—	(2,238,302)	—	(2,238,302)
Other .....	2,084,973	411,608	6,377	—	(1,666,988)	—	(1,666,988)
Total Instruction .....	<u>9,904,345</u>	<u>1,456,986</u>	<u>1,374,050</u>	<u>—</u>	<u>(7,073,309)</u>	<u>—</u>	<u>(7,073,309)</u>
Support Services							
Student .....	351,041	—	—	—	(351,041)	—	(351,041)
Instructional staff .....	433,903	—	22,449	—	(411,454)	—	(411,454)
Administration .....	1,463,510	—	—	—	(1,463,510)	—	(1,463,510)
Operation and maintenance of plant .....	1,470,906	67,669	—	908,748	(494,489)	—	(494,489)
Transportation .....	644,620	4,364	—	—	(640,256)	—	(640,256)
Total Support Services .....	<u>4,363,980</u>	<u>72,033</u>	<u>22,449</u>	<u>908,748</u>	<u>(3,360,750)</u>	<u>—</u>	<u>(3,360,750)</u>
Other Expenditures							
Long-term debt interest and fiscal charges .....	10,670	—	—	—	(10,670)	—	(10,670)
AEA flowthrough .....	518,518	—	518,518	—	—	—	—
Depreciation - unallocated* .....	521,512	—	—	—	(521,512)	—	(521,512)
Total Other Expenditures .....	<u>1,050,700</u>	<u>—</u>	<u>518,518</u>	<u>—</u>	<u>(532,182)</u>	<u>—</u>	<u>(532,182)</u>
<b>Total Governmental Activities .....</b>	<b><u>15,319,025</u></b>	<b><u>1,529,019</u></b>	<b><u>1,915,017</u></b>	<b><u>908,748</u></b>	<b><u>(10,966,241)</u></b>	<b><u>—</u></b>	<b><u>(10,966,241)</u></b>
<b>Business-Type Activities</b>							
Noninstructional Programs							
Food service operations .....	<u>659,663</u>	<u>290,019</u>	<u>372,923</u>	<u>—</u>	<u>—</u>	<u>3,279</u>	<u>3,279</u>
<b>Total .....</b>	<b><u>\$ 15,978,688</u></b>	<b><u>\$ 1,819,038</u></b>	<b><u>\$ 2,287,940</u></b>	<b><u>\$ 908,748</u></b>	<b><u>(10,966,241)</u></b>	<b><u>3,279</u></b>	<b><u>(10,962,962)</u></b>
<b>General Revenue (Expense)</b>							
Property Tax Levied for							
General purposes .....					4,213,411	—	4,213,411
Management levy .....					327,061	—	327,061
Capital outlay .....					125,998	—	125,998
Debt service .....					255,102	—	255,102
Income surtax .....					641,008	—	641,008
Statewide sales, services and use tax .....					972,688	—	972,688
Unrestricted state grants .....					5,592,168	—	5,592,168
Unrestricted investment earnings .....					2,666	20	2,666
Loss on disposal of capital assets .....					(607,847)	—	(607,847)
<b>Total General Revenue .....</b>					<b><u>11,522,235</u></b>	<b><u>20</u></b>	<b><u>11,522,255</u></b>
<b>Change in Net Position .....</b>					<b>555,994</b>	<b>3,299</b>	<b>559,293</b>
Net Position - Beginning of Year, as restated (Note 15) .....					12,858,390	110,418	12,968,808
<b>Net Position - End of Year .....</b>					<b><u>\$ 13,414,384</u></b>	<b><u>\$ 113,717</u></b>	<b><u>\$ 13,528,101</u></b>

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

See accompanying notes to the financial statements.

## Balance Sheet - Governmental Funds

As of June 30, 2014

	General	Capital Projects	Nonmajor	Total
<b>Assets</b>				
Cash, cash equivalents and investments.....	\$ 3,294,724	\$ 1,578,579	\$ 642,917	\$ 5,516,220
Receivables				
Property Tax, Net of Allowance				
Current year delinquent .....	57,109	1,668	8,219	66,996
Succeeding year.....	4,088,131	138,880	778,024	5,005,035
Accounts .....	—	—	4,880	4,880
Due from other funds.....	31,869	22,426	16,235	70,530
Due from other governments .....	806,735	340,551	—	1,147,286
Inventories.....	14,056	—	—	14,056
<b>Total Assets .....</b>	<b>\$ 8,292,624</b>	<b>\$ 2,082,104</b>	<b>\$ 1,450,275</b>	<b>\$ 11,825,003</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 135,925	\$ 575,229	\$ 15,271	\$ 726,425
Salaries and benefits payable.....	1,289,646	—	—	1,289,646
Due to other funds .....	38,661	5,998	25,871	70,530
<b>Total Liabilities .....</b>	<b>1,464,232</b>	<b>581,227</b>	<b>41,142</b>	<b>2,086,601</b>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue				
Succeeding year property tax.....	4,088,131	138,880	778,024	5,005,035
Income surtax .....	501,451	—	—	501,451
<b>Total Deferred Inflows of Resources.....</b>	<b>4,589,582</b>	<b>138,880</b>	<b>778,024</b>	<b>5,506,486</b>
<b>Fund Balances</b>				
Nonspendable				
Inventories .....	14,056	—	—	14,056
Restricted for				
Categorical funding .....	291,571	—	—	291,571
School infrastructure .....	—	1,033,313	—	1,033,313
Physical plant and equipment .....	—	328,684	—	328,684
Management levy purposes .....	—	—	547,899	547,899
Student activities.....	—	—	99,606	99,606
Unassigned .....	1,933,183	—	(16,396)	1,916,787
<b>Total Fund Balances .....</b>	<b>2,238,810</b>	<b>1,361,997</b>	<b>631,109</b>	<b>4,231,916</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 8,292,624</b>	<b>\$ 2,082,104</b>	<b>\$ 1,450,275</b>	<b>\$ 11,825,003</b>

See accompanying notes to the financial statements.

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

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As of June 30, 2014

<b>Total Fund Balances for Governmental Funds (Page 16)....</b>		<b>\$ 4,231,916</b>
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.....		10,551,173
Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.....		(669)
Income surtax receivable is not available to pay current year expenditures and, therefore, is deferred in the governmental funds.....		501,451
Long-term liabilities, including general obligation refunding bonds, early retirement and other post-employment benefits are not due and payable in the current year and, therefore, are not reported as liabilities in the governmental funds.		
General obligation refunding bonds.....	\$ (1,100,000)	
Early retirement.....	(418,660)	
Net OPEB liability.....	<u>(350,827)</u>	<u>(1,869,487)</u>
 <b>Net Position of Governmental Activities (Page 14) .....</b>		 <b><u>\$ 13,414,384</u></b>

# Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2014

	General	Capital Projects	Nonmajor	Total
<b>Revenue</b>				
Local Sources				
Local tax .....	\$ 4,851,976	\$ 125,998	\$ 582,163	\$ 5,560,137
Tuition.....	841,017	—	—	841,017
Other.....	277,959	909,592	411,845	1,599,396
State sources .....	7,262,083	972,758	338	8,235,179
Federal sources.....	244,694	—	—	244,694
<b>Total Revenue .....</b>	<b><u>13,477,729</u></b>	<b><u>2,008,348</u></b>	<b><u>994,346</u></b>	<b><u>16,480,423</u></b>
<b>Expenditures</b>				
Current				
Instruction				
Regular.....	4,920,820	—	79,189	5,000,009
Special .....	2,677,352	—	—	2,677,352
Other .....	<u>1,452,591</u>	<u>—</u>	<u>418,571</u>	<u>1,871,162</u>
Total Instruction .....	<u>9,050,763</u>	<u>—</u>	<u>497,760</u>	<u>9,548,523</u>
Support Services				
Student.....	343,190	—	—	343,190
Instructional staff .....	424,764	—	—	424,764
Administration.....	1,430,355	—	—	1,430,355
Operation and maintenance of plant .....	1,026,088	15,250	295,784	1,337,122
Transportation .....	<u>529,444</u>	<u>80,185</u>	<u>—</u>	<u>609,629</u>
Total Support Services .....	<u>3,753,841</u>	<u>95,435</u>	<u>295,784</u>	<u>4,145,060</u>
Other Expenditures				
Facilities acquisition.....	—	2,354,474	—	2,354,474
Long-Term Debt				
Principal .....	—	—	379,464	379,464
Interest and fiscal charges .....	—	169	14,034	14,203
AEA flowthrough.....	<u>518,518</u>	<u>—</u>	<u>—</u>	<u>518,518</u>
Total Other Expenditures .....	<u>518,518</u>	<u>2,354,643</u>	<u>393,498</u>	<u>3,266,659</u>
<b>Total Expenditures .....</b>	<b><u>13,323,122</u></b>	<b><u>2,450,078</u></b>	<b><u>1,187,042</u></b>	<b><u>16,960,242</u></b>
<b>Revenue Over (Under) Expenditures</b>	<b><u>154,607</u></b>	<b><u>(441,730)</u></b>	<b><u>(192,696)</u></b>	<b><u>(479,819)</u></b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in .....	—	17,105	118,780	135,885
Operating transfers out.....	<u>(135,885)</u>	<u>—</u>	<u>—</u>	<u>(135,885)</u>
<b>Total Other Financing Sources (Uses) .....</b>	<b><u>(135,885)</u></b>	<b><u>17,105</u></b>	<b><u>118,780</u></b>	<b><u>—</u></b>
<b>Change in Fund Balances .....</b>	<b>18,722</b>	<b>(424,625)</b>	<b>(73,916)</b>	<b>(479,819)</b>
Fund Balances - Beginning of Year, as restated (Note 15) .....	<u>2,220,088</u>	<u>1,786,622</u>	<u>705,025</u>	<u>4,711,735</u>
<b>Fund Balances - End of Year .....</b>	<b><u>\$ 2,238,810</u></b>	<b><u>\$ 1,361,997</u></b>	<b><u>\$ 631,109</u></b>	<b><u>\$ 4,231,916</u></b>

See accompanying notes to the financial statements.

# Reconciliation of the Statement of Revenue, 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 18) \$ (479,819)**

***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. The amounts of capital outlays and depreciation expense for the year are as follows:

Capital outlays.....	\$ 2,340,206	
Depreciation expense.....	<u>(819,291)</u>	1,520,915

The net book value of capital assets disposed of during the year.....		(607,847)
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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 governmental funds when due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due .....		3,533
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Income surtax not collected for several months after year end is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds.		2,443
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.....		379,464
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement.....	\$ (195,433)	
Other post-employment benefits.....	<u>(67,262)</u>	<u>(262,695)</u>

**Change in Net Position of Governmental Activities (Page 15) \$ 555,994**

# Statement of Net Position - Proprietary Fund

Year Ended June 30, 2014

	<b>Nonmajor Enterprise School Nutrition</b>
<b>Assets</b>	
<b>Current Assets</b>	
Cash, cash equivalents and investments .....	\$ 77,654
Due from other governments .....	12,666
Inventories .....	<u>23,370</u>
<b>Total Current Assets</b> .....	<b><u>113,690</u></b>
<b>Capital Assets, Net of Accumulated Depreciation</b> .....	<b><u>59,608</u></b>
<b>Total Assets</b> .....	<b><u>\$ 173,298</u></b>
<b>Liabilities and Net Position</b>	
<b>Current Liabilities</b>	
Accounts payable .....	\$ 6,974
Salaries and benefits payable .....	38,988
Unearned revenue .....	<u>837</u>
<b>Total Current Liabilities</b> .....	<b><u>46,799</u></b>
<b>Net OPEB Liability</b> .....	<b><u>12,782</u></b>
<b>Total Liabilities</b> .....	<b><u>59,581</u></b>
<b>Net Position</b>	
Investment in capital assets .....	59,608
Unrestricted .....	<u>54,109</u>
<b>Total Net Position</b> .....	<b><u>113,717</u></b>
<b>Total Liabilities and Net Position</b> .....	<b><u>\$ 173,298</u></b>

**Statement of Revenue, Expenses and Changes in Net Position -  
Proprietary Fund**

Year Ended June 30, 2014

	<b>Nonmajor Enterprise School Nutrition</b>
<b>Operating Revenue</b>	
Local Sources	
Charges for service .....	<b><u>\$ 290,019</u></b>
<b>Operating Expenses</b>	
Noninstructional Programs	
Food Service Operations	
Salaries .....	178,583
Benefits .....	99,297
Purchased services .....	858
Supplies .....	371,024
Depreciation .....	<u>9,901</u>
<b>Total Operating Expenses</b> .....	<b><u>659,663</u></b>
<b>Loss From Operations</b> .....	<b><u>(369,644)</u></b>
<b>Nonoperating Revenue</b>	
State sources .....	5,552
Federal sources.....	367,371
Interest income.....	<u>20</u>
<b>Total Nonoperating Revenue</b> .....	<b><u>372,943</u></b>
<b>Change in Net Position</b> .....	<b>3,299</b>
Net Position - Beginning of Year, as restated (Note 15).....	<u>110,418</u>
<b>Net Position - End of Year</b> .....	<b><u>\$ 113,717</u></b>

# Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2014

	<b>Nonmajor Enterprise School Nutrition</b>
<b>Cash Flows From Operating Activities</b>	
Cash received from sale of lunches and breakfasts.....	\$ 290,064
Cash payments to employees for services .....	(278,997)
Cash payments to suppliers for goods or services.....	(318,684)
<b>Net Cash Used in Operating Activities .....</b>	<b><u>(307,617)</u></b>
<b>Cash Flows From Noncapital Financing Activities</b>	
State grants received.....	5,552
Federal grants received.....	316,374
<b>Net Cash Provided by Noncapital Financing Activities .....</b>	<b><u>321,926</u></b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of capital assets.....	<u>(3,774)</u>
<b>Cash Flows From Investing Activities</b>	
Interest on investments .....	<u>20</u>
<b>Net Increase in Cash, Cash Equivalents and Investments .....</b>	<b>10,555</b>
Cash, Cash Equivalents and Investments - Beginning of Year, as restated (Note 15) .....	<u>67,099</u>
<b>Cash, Cash Equivalents and Investments - End of Year .....</b>	<b><u>\$ 77,654</u></b>
<b>Reconciliation of Loss From Operations to Net Cash Used in Operating Activities</b>	
Loss from operations.....	\$ (369,644)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities	
Commodities used.....	49,925
Depreciation .....	9,901
Changes in Assets and Liabilities	
Decrease in inventories .....	3,400
Decrease in accounts payable.....	(127)
Decrease in salaries and benefits payable .....	(3,350)
Increase in unearned revenue .....	45
Increase in net OPEB liability .....	<u>2,233</u>
<b>Net Cash Used in Operating Activities.....</b>	<b><u>\$ (307,617)</u></b>

## Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2014, the District received \$52,084 of federal commodities.

# Statement of Changes in Fiduciary Net Position - Fiduciary Fund ---

Year Ended June 30, 2014

	<u>Private Purpose Trust Scholarship</u>
<b>Additions</b> .....	\$ —
<b>Deductions</b>	
Transfer to Forest City Community School Foundation.....	<u>3,240</u>
<b>Change in Net Position</b> .....	<b>(3,240)</b>
Net Position - Beginning of Year, as restated (Note 15).....	<u>3,240</u>
<b>Net Position - End of Year</b> .....	<u><u>\$ —</u></u>

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies**

Forest City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve along with special education pre-kindergarten. The geographic area served includes the Cities of Forest City, Woden and Crystal Lake, Iowa, and the predominately agricultural territory in portions of Winnebago, Hancock, Worth and Cerro Gordo counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

During the year ended June 30, 2013, voters of Forest City, Woden and Crystal Lake communities approved a merger and the formation of a new District as of July 1, 2013 called Forest City Community School District. The newly formed District absorbed the assets, liabilities, deferred inflows of resources and net position of the former Forest City and Woden-Crystal Lake Community School Districts effective July 1, 2013. See Note 15 for details.

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

### **Reporting Entity**

For financial reporting purposes, Forest City 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 District has no component units which meet the Governmental Accounting Standards Board criteria.

### **Jointly Governed Organizations**

The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Winnebago and Hancock County Assessor's Conference Boards.

### **Basis of Presentation**

#### ***Government-Wide Financial Statements***

The statement of net position and the statement of activities report information on all 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 revenue, 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, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

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

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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

*Unrestricted net position* consists of net position not meeting the definition of the 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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

### ***Fund Financial Statements***

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

The District reports the following major governmental funds:

The *General Fund* is the general operating fund of the District. All general tax revenue and other revenue 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 reports the following nonmajor proprietary fund:

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

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

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. During the year ended June 30, 2014, all trust assets were transferred to Forest City Community School Foundation.

### **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. Revenue is 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.

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies**

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

### **Assets, Liabilities, Deferred Inflows of Resources and Fund Equity**

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

#### ***Cash, Cash Equivalents and Investments***

The cash balances of most District funds are invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

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

# Notes to the Financial Statements

## (1) Summary of Significant Accounting Policies

### **Property Tax Receivable**

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. 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 becomes due and collectible in September and March of the fiscal year with a 1-1/2% 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 revenue, grants and reimbursements from other governments.

### **Inventories**

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. Inventories of the Proprietary and General Fund are recorded as expenses when consumed rather than when purchased or received.

### **Capital Assets**

Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. The District did not have any intangible assets as of June 30, 2014. 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.

Land.....	\$ —
Buildings and improvements .....	25,000
Intangibles.....	100,000
Furniture and Equipment	
School Nutrition Fund equipment .....	500
Other furniture and equipment.....	3,000

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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

Buildings and improvements .....	20 - 50 Years
Intangibles.....	3 - 10 Years
Furniture and equipment .....	5 - 30 Years

### **Salaries and Benefits Payable**

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

### **Compensated Absences**

District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation or sick leave benefits when employment with the District ends.

### **Long-Term Liabilities**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net position.

### **Deferred Inflows of Resources**

Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consists of property tax receivable and income surtax receivable not collected within 60 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 the year for which it is levied.

### **Fund Equity**

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

**Nonspendable** - Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

**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 classifications.

### **Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2014, expenditures exceeded the amounts budgeted in the support services and other expenditures functions. The District did not exceed its General Fund unspent authorized budget.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

### Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## (2) Cash, Cash Equivalents and Investments

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

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

As of June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Diversified Government Obligations Portfolio which are valued at an amortized cost of \$5,548 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

## (3) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Debt Service	\$ 25,871
	Capital Projects	
	Physical Plant and Equipment Levy	<u>5,998</u>
		<u>31,869</u>
Special Revenue		
Management Levy	General	<u>16,235</u>
Capital Projects		
Statewide Sales, Services and Use Tax	General	<u>22,426</u>
		<u>\$ 70,530</u>

The outstanding balances are related to prior year expenditures paid from the incorrect fund and current year property and statewide sales, services and use tax deposited to the incorrect fund. The balances are to be repaid by June 30, 2015.

## Notes to the Financial Statements

### (4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	General	\$ 118,780
Capital Projects		
Physical Plant and Equipment Levy	General	<u>17,105</u>
		<b><u>\$ 135,885</u></b>

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

### (5) Capital Assets

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

	Balance - Beginning of Year, as Restated (Note 15)	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land.....	\$ 238,537	\$ —	\$ 3,537	\$ 235,000
Construction in progress .....	<u>93,611</u>	<u>2,204,640</u>	<u>1,177,932</u>	<u>1,120,319</u>
Total Capital Assets Not Being Depreciated.....	<u>332,148</u>	<u>2,204,640</u>	<u>1,181,469</u>	<u>1,355,319</u>
Capital Assets Being Depreciated				
Buildings and improvements .....	19,356,761	1,097,012	1,308,152	19,145,621
Furniture and equipment .....	<u>3,058,518</u>	<u>216,486</u>	<u>29,626</u>	<u>3,245,378</u>
Total Capital Assets Being Depreciated.....	<u>22,415,279</u>	<u>1,313,498</u>	<u>1,337,778</u>	<u>22,390,999</u>
Less Accumulated Depreciation for				
Buildings and improvements .....	10,828,243	680,581	706,104	10,802,720
Furniture and equipment .....	<u>2,281,079</u>	<u>138,710</u>	<u>27,364</u>	<u>2,392,425</u>
Total Accumulated Depreciation...	<u>13,109,322</u>	<u>819,291</u>	<u>733,468</u>	<u>13,195,145</u>
Total Capital Assets Being Depreciated, Net .....	<u>9,305,957</u>	<u>494,207</u>	<u>604,310</u>	<u>9,195,854</u>
<b>Governmental Activities Capital Assets, Net .....</b>	<b><u>\$ 9,638,105</u></b>	<b><u>\$ 2,698,847</u></b>	<b><u>\$ 1,785,779</u></b>	<b><u>\$ 10,551,173</u></b>
<b>Business-Type Activities</b>				
Furniture and equipment .....	\$ 241,114	\$ 3,774	\$ —	\$ 244,888
Less accumulated depreciation .....	<u>175,379</u>	<u>9,901</u>	<u>—</u>	<u>185,280</u>
<b>Business-Type Activities Capital Assets, Net.....</b>	<b><u>\$ 65,735</u></b>	<b><u>\$ (6,127)</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 59,608</u></b>

## Notes to the Financial Statements

### (5) Capital Assets

Depreciation expense was charged to the following functions:

#### Governmental Activities

Instruction	
Other.....	\$ 177,403
Support Services	
Administration .....	4,280
Operation and maintenance of plant .....	11,172
Transportation.....	104,924
Unallocated .....	521,512
<b>Total Depreciation Expense - Governmental Activities .....</b>	<b><u>\$ 819,291</u></b>

#### Business-Type Activities

Food service operations .....	<b><u>\$ 9,901</u></b>
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### (6) Long-Term Liabilities

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

	Balance - Beginning of Year, as Restated (Note 15)	Additions	Reductions	Balance - End of Year	Due Within One Year
<b>Government Activities</b>					
General obligation					
refunding bonds	\$ 1,365,000	\$ —	\$ 265,000	\$ 1,100,000	\$ 265,000
Note payable .....	114,464	—	114,464	—	—
Early retirement .....	223,227	275,000	79,567	418,660	92,631
Net OPEB liability ...	283,565	98,362	31,100	350,827	—
<b>Total .....</b>	<b><u>\$ 1,986,256</u></b>	<b><u>\$ 373,362</u></b>	<b><u>\$ 490,131</u></b>	<b><u>\$ 1,869,487</u></b>	<b><u>\$ 357,631</u></b>
<b>Business-Type Activities</b>					
Net OPEB Liability ..	<b><u>\$ 10,549</u></b>	<b><u>\$ 2,233</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 12,782</u></b>	<b><u>\$ —</u></b>

#### General Obligation Refunding Bonds

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

Year Ending June 30,	Bonds Issued January 1, 2013			
	Interest Rates	Principal	Interest	Total
2015 .....	0.50%	\$ 265,000	\$ 8,025	\$ 273,025
2016 .....	0.60	275,000	6,700	281,700
2017 .....	0.80	275,000	5,050	280,050
2018 .....	1.00	285,000	2,850	287,850
<b>Total .....</b>		<b><u>\$ 1,100,000</u></b>	<b><u>\$ 22,625</u></b>	<b><u>\$ 1,122,625</u></b>

## Notes to the Financial Statements

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### **(6) Long-Term Liabilities**

#### **Note Payable**

During the year ended June 30, 2012, the former Forest City Community School District issued a note of \$348,325 to provide funds for the purchase of computers. The note bears interest at 3% per annum and is payable from the General Fund. The final payment on the note was made during the year ended June 30, 2014.

### **(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$714,539, \$660,126 and \$603,286, respectively, equal to the required contributions for each year.

### **(8) Other Postemployment Benefits (OPEB)**

#### **Plan Description**

The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 153 active and 15 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. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

#### **Funding Policy**

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

#### **Annual OPEB Cost and Net OPEB Obligation**

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

## Notes to the Financial Statements

### (8) Other Postemployment Benefits (OPEB)

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

Annual required contribution.....	\$ 142,963
Interest on net OPEB obligation.....	6,575
Adjustment to annual required contribution.....	<u>(47,391)</u>
Annual OPEB Cost .....	102,147
Contributions made .....	<u>(32,652)</u>
Increase in Net OPEB Obligation .....	69,495
Net OPEB Obligation - Beginning of Year, as restated (Note 15).....	<u>294,114</u>
Net OPEB Obligation - End of Year .....	<u><b>\$ 363,609</b></u>

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

For the year ended June 30, 2014, the District contributed \$32,652 to the medical plan. Plan members eligible for benefits contributed \$4,243 or 11.5% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 102,147	32.0%	\$ 363,609

### Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date for the period of July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$999,982 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$999,982. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,044,000, and the ratio of the UAAL to the covered payroll was 12.4%. As of June 30, 2014, there were no trust fund assets.

### Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the 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 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.

### **(8) Other Postemployment Benefits (OPEB)**

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

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. An inflation rate of 0% is assumed for the purpose of this computation.

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

### **(9) Early Retirement Plan**

The former Forest City Community School District offered a voluntary early retirement plan to its employees during fiscal years 2006, 2009 and 2010. The newly formed Forest City Community School District offered a voluntary early retirement plan to its employees during fiscal year 2014. Eligible employees must have completed at least ten years of continuous service to the District and must have reached the age of 55 on or before June 30 in the calendar year in which early retirement commenced. The application for early retirement was subject to approval by the Board of Education and the board reserved the right to limit the number of retirements.

Early retirement benefits for certified staff consisted of \$35,000 of future health insurance premiums for the plans offered in fiscal years, 2006, 2009 and 2010 and \$25,000 of future health insurance premiums for the plan offered in fiscal year 2014.

As of June 30, 2014, the District has obligations to 25 participants with a total liability of \$418,660. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$79,567.

### **(10) Risk Management**

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

## Notes to the Financial Statements

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### (11) Area Education Agency Support

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 \$518,518 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.

### (12) Categorical Funding

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

<b>Program</b>	<b>Amount</b>
Statewide voluntary four-year-old preschool program.....	\$ 192,428
Teacher salary supplement .....	56,164
Professional development for model core curriculum.....	33,869
Teacher leadership grant.....	9,110
	<u>\$ 291,571</u>

### (13) Construction Commitment

The District has entered into contracts totaling \$1,850,537 for improvements to the high school, middle school main entrance and high school loading dock and for the construction of a new athletic facility. As of June 30, 2014, costs of \$1,212,919 had been incurred against the contracts. The balance of \$637,618 remaining as of June 30, 2014 will be paid as work on the projects progress.

### (14) Change in Estimated Useful Lives of Assets

During the year ended June 30, 2013, management of the former Forest City Community School District determined the useful lives of some building improvements were over-estimated. The building improvements had been depreciated over 20-50 years and it was deemed they should have been depreciated over 15-20 years. The remaining net book value is being depreciated over the re-estimated useful life beginning in the year ended June 30, 2013.

### (15) School District Merger

During the fiscal year ended June 30, 2013, the voters of Forest City, Woden and Crystal Lake communities approved a merger of the Forest City Community School District (Forest City) and the Woden-Crystal Lake Community School District (Woden-Crystal Lake) to cut costs needed due to declining enrollment and state funding reductions in both districts. As approved, a new District was formed named Forest City Community School District as of July 1, 2013. The merger also allows the newly formed District to take advantage of an incentive to claim additional supplementary weighting and thereby receive additional state funding for up to three years. The operations of the former Forest City

## Notes to the Financial Statements

### (15) School District Merger

and Woden-Crystal Lake Community School Districts and the assets, liabilities, deferred inflows of resources and net position, as of July 1, 2013, were merged into the newly formed District and determined on the basis of the carrying values reported in the separate financial statements of Forest City and Woden-Crystal Lake as of June 30, 2013, as follows:

#### Government-Wide Financial Statements

	Governmental Activities			Business-Type Activities		
	Forest City	Woden-Crystal Lake	Total	Forest City	Woden-Crystal Lake	Total
<b>Assets</b>						
Current and other assets .....	\$ 9,243,325	\$ 1,440,540	\$ 10,683,865	\$ 103,964	\$ 1,499	\$ 105,463
Capital assets .....	8,956,121	681,984	9,638,105	65,735	—	65,735
<b>Total Assets .....</b>	<b>18,199,446</b>	<b>2,122,524</b>	<b>20,321,970</b>	<b>169,699</b>	<b>1,499</b>	<b>171,198</b>
<b>Liabilities</b>						
Current liabilities .....	1,605,786	98,513	1,704,299	50,231	—	50,231
Noncurrent liabilities .....	1,955,156	31,100	1,986,256	10,549	—	10,549
<b>Total Liabilities .....</b>	<b>3,560,942</b>	<b>129,613</b>	<b>3,690,555</b>	<b>60,780</b>	<b>—</b>	<b>60,780</b>
<b>Deferred Inflows of Resources .....</b>	<b>3,773,025</b>	<b>—</b>	<b>3,773,025</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Position</b>						
Net investment in capital assets .....	7,476,657	681,984	8,158,641	65,735	—	65,735
Restricted .....	1,723,352	833,198	2,556,550	—	—	—
Unrestricted .....	1,665,470	477,729	2,143,199	43,184	1,499	44,683
<b>Total Net Position .....</b>	<b>\$ 10,865,479</b>	<b>\$ 1,992,911</b>	<b>\$ 12,858,390</b>	<b>\$ 108,919</b>	<b>\$ 1,499</b>	<b>\$ 110,418</b>

#### Fund Financial Statements

##### Governmental Funds

	Fund Balance						Total
	General	Capital Projects Statewide Sales, Services and Use Tax	Physical Plant and- Equipment Levy	Special Revenue Manage- ment Levy	Student Activity	Debt Service	
Balance June 30, 2013, as Previously Reported							
Forest City .....	\$ 1,778,736	\$ 1,224,117	\$ 109,572	\$ 215,257	\$ 106,476	\$ 3,027	\$ 3,437,185
Woden-Crystal Lake	441,352	281,671	171,262	380,225	40	—	1,274,550
<b>Balance July 1, 2013, as Restated .....</b>	<b>\$ 2,220,088</b>	<b>\$ 1,505,788</b>	<b>\$ 280,834</b>	<b>\$ 595,482</b>	<b>\$ 106,516</b>	<b>\$ 3,027</b>	<b>\$ 4,711,735</b>

## Notes to the Financial Statements

### (15) School District Merger

#### Proprietary Funds

	<b>Enterprise - School Nutrition</b>
Balance June 30, 2013, as Previously Reported	
Forest City.....	\$ 108,919
Woden-Crystal Lake.....	1,499
<b>Balance July 1, 2013, as Restated.....</b>	<b><u>\$ 110,418</u></b>

#### Fiduciary Funds

	<b>Private Purpose Trust - Scholarship</b>
Balance June 30, 2013, as Previously Reported	
Forest City.....	\$ 3,240
Woden-Crystal Lake* .....	—
<b>Balance July 1, 2013, as Restated.....</b>	<b><u>\$ 3,240</u></b>

\* Woden-Crystal Lake Community School District previously reported \$19,762 in an agency fund for the Crystal Lake Public Library; however, these funds were not merged with the Forest City Community School District since the newly merged District has no fiduciary responsibility to the Crystal Lake Public Library.

### (16) Deficit Balance

The Debt Service Fund had a deficit balance of \$16,396 as of June 30, 2014. The deficit balance was a result of not levying enough to cover debt service needs. The deficit balance will be eliminated with future tax levied or transfers from the other funds.

### (17) Subsequent Events

Management has evaluated events through February 2, 2015, the date which the financial statements were available to be issued.

### (18) 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 during the 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 may include a significant liability for the District's proportionate share of the IPERS employee pension plan unfunded pension liability.

**Required Supplementary Information**

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## Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2014

	Actual			Budget Amount		Over (Under) Budget
	Govern- mental Fund Types	Proprietary Fund Type	Total	Original	Final	
<b>Revenue</b>						
Local sources .....	\$ 8,000,550	\$ 290,039	\$ 8,290,589	\$ 9,145,305	\$ 9,145,305	\$ (854,716)
Intermediary sources.....	—	—	—	970,000	970,000	(970,000)
State sources .....	8,235,179	5,552	8,240,731	7,804,626	7,804,626	436,105
Federal sources .....	244,694	367,371	612,065	534,500	534,500	77,565
<b>Total Revenue.....</b>	<b>16,480,423</b>	<b>662,962</b>	<b>17,143,385</b>	<b>18,454,431</b>	<b>18,454,431</b>	<b>(1,311,046)</b>
<b>Expenditures/Expenses</b>						
Instruction.....	9,548,523	—	9,548,523	9,954,935	10,000,000	(451,477)
Support services .....	4,145,060	—	4,145,060	3,280,000	3,800,000	345,060
Noninstructional programs .....	—	659,663	659,663	715,000	750,000	(90,337)
Other expenditures.....	3,266,659	—	3,266,659	2,940,165	3,000,000	266,659
<b>Total Expenditures/ Expenses .....</b>	<b>16,960,242</b>	<b>659,663</b>	<b>17,619,905</b>	<b>16,890,100</b>	<b>17,550,000</b>	<b>69,905</b>
<b>Revenue Over (Under) Expenditures/Expenses....</b>	<b>(479,819)</b>	<b>3,299</b>	<b>(476,520)</b>	<b>1,564,331</b>	<b>904,431</b>	<b>(1,380,951)</b>
Balance - Beginning of Year, as restated (Note 15) .....	4,711,735	110,418	4,822,153	4,111,875	4,111,875	710,278
<b>Balance - End of Year .....</b>	<b>\$ 4,231,916</b>	<b>\$ 113,717</b>	<b>\$ 4,345,633</b>	<b>\$ 5,676,206</b>	<b>\$ 5,016,306</b>	<b>\$ (670,673)</b>

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 the Private-Purpose Trust Fund. The budget may be amended during the year utilizing similar and statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides 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 adopted one budget amendment, increasing budgeted expenditures by \$659,900.

During the year ended June 30, 2014, expenditures in the support services and other expenditures functions exceeded the amount budgeted; however, the District did not exceed its General Fund unspent authorized budget.

## Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	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]
2014	7-1-11	\$ —	\$ 999,982	\$ 999,982	0%	\$ 8,044,000	12.4%

See Note 8 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

**Supplementary Information**

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# Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2014

	<u>Special Revenue</u>		Debt Service	Total
	Management Levy	Student Activity		
<b>Assets</b>				
Cash, cash equivalents and investments.....	\$ 527,115	\$ 109,997	\$ 5,805	\$ 642,917
Receivables				
Property Tax, Net of Allowance				
Current year delinquent.....	4,549	—	3,670	8,219
Succeeding year .....	499,999	—	278,025	778,024
Accounts.....	—	4,880	—	4,880
Due from other funds.....	<u>16,235</u>	<u>—</u>	<u>—</u>	<u>16,235</u>
<b>Total Assets .....</b>	<b><u>\$ 1,047,898</u></b>	<b><u>\$ 114,877</u></b>	<b><u>\$ 287,500</u></b>	<b><u>\$ 1,450,275</u></b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ —	\$ 15,271	\$ —	\$ 15,271
Due to other funds.....	<u>—</u>	<u>—</u>	<u>25,871</u>	<u>25,871</u>
<b>Total Liabilities .....</b>	<b><u>—</u></b>	<b><u>15,271</u></b>	<b><u>25,871</u></b>	<b><u>41,142</u></b>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue				
Succeeding year property tax.....	<u>499,999</u>	<u>—</u>	<u>278,025</u>	<u>778,024</u>
<b>Fund Balances</b>				
Restricted for				
Management levy purposes .....	547,899	—	—	547,899
Student activities.....	—	99,606	—	99,606
Unassigned .....	<u>—</u>	<u>—</u>	<u>(16,396)</u>	<u>(16,396)</u>
<b>Total Fund Balances .....</b>	<b><u>547,899</u></b>	<b><u>99,606</u></b>	<b><u>(16,396)</u></b>	<b><u>631,109</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances....</b>	<b><u>\$ 1,047,898</u></b>	<b><u>\$ 114,877</u></b>	<b><u>\$ 287,500</u></b>	<b><u>\$ 1,450,275</u></b>

## Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

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Year Ended June 30, 2014

	Special Revenue		Debt Service	Total
	Management Levy	Student Activity		
<b>Revenue</b>				
Local Sources				
Local tax .....	\$ 327,061	\$ —	\$ 255,102	\$ 582,163
Other.....	146	411,661	38	411,845
State sources .....	183	—	155	338
<b>Total Revenue.....</b>	<b><u>327,390</u></b>	<b><u>411,661</u></b>	<b><u>255,295</u></b>	<b><u>994,346</u></b>
<b>Expenditures</b>				
Current				
Instruction				
Regular .....	79,189	—	—	79,189
Other.....	—	418,571	—	418,571
Total Instruction.....	<u>79,189</u>	<u>418,571</u>	<u>—</u>	<u>497,760</u>
Support Services				
Operation and maintenance of plant .....	295,784	—	—	295,784
Other Expenditures				
Long-Term Debt				
Principal .....	—	—	379,464	379,464
Interest and fiscal charges.....	—	—	14,034	14,034
Total Other Expenditures.....	<u>—</u>	<u>—</u>	<u>393,498</u>	<u>393,498</u>
<b>Total Expenditures .....</b>	<b><u>374,973</u></b>	<b><u>418,571</u></b>	<b><u>393,498</u></b>	<b><u>1,187,042</u></b>
<b>Revenue Under Expenditures.....</b>	<b>(47,583)</b>	<b>(6,910)</b>	<b>(138,203)</b>	<b>(192,696)</b>
<b>Other Financing Sources</b>				
Operating transfers in.....	—	—	118,780	118,780
<b>Change in Fund Balances.....</b>	<b>(47,583)</b>	<b>(6,910)</b>	<b>(19,423)</b>	<b>(73,916)</b>
Fund Balances - Beginning of Year, as restated (Note 15) .....				
	<u>595,482</u>	<u>106,516</u>	<u>3,027</u>	<u>705,025</u>
<b>Fund Balances - End of Year .....</b>	<b><u>\$ 547,899</u></b>	<b><u>\$ 99,606</u></b>	<b><u>\$ (16,396)</u></b>	<b><u>\$ 631,109</u></b>

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts —

Year Ended June 30, 2014

Account	Balance - Beginning of Year, as Restated (Note 15)	Revenue	Expendi- tures	Intrafund Transfers	Balance - End of Year
Athletics and cheerleading.....	\$ 17,490	\$ 118,184	\$ 158,099	\$ 22,425	\$ —
Cross country .....	—	987	—	(987)	—
Golf .....	—	420	1,456	1,036	—
Boys athletics .....	—	17,176	23,190	7,578	1,564
Boys basketball .....	—	18,152	12,131	(3,647)	2,374
Football .....	476	24,891	11,442	(7,136)	6,789
Baseball field improvement.....	7,577	7,700	6,115	(7,577)	1,585
Boys track .....	707	4,026	1,576	(1,273)	1,884
Wrestling .....	—	11,034	10,770	—	264
Girls basketball.....	1,781	4,806	3,156	—	3,431
Volleyball.....	4,424	21,254	20,302	—	5,376
Softball .....	—	—	2,036	2,036	—
Girls track .....	1,289	4,610	4,725	—	1,174
Cheer fundraising .....	—	7,224	7,224	—	—
Special education wind suit ....	116	—	—	—	116
Elementary activities.....	33,161	7,903	5,703	(13,521)	21,840
FFA .....	1,948	32,121	24,964	—	9,105
HS activities.....	877	6,566	6,522	—	921
HS band .....	774	5,897	6,108	—	563
HS home economics awards ...	1	—	—	—	1
HS color guard .....	2,038	934	549	—	2,423
HS music.....	314	3,340	3,097	—	557
HS marketing.....	1,232	2,577	2,423	—	1,386
HS student council.....	2,335	5,293	4,152	—	3,476
Student insurance .....	—	365	365	—	—
Student athletic facility.....	—	100	—	—	100
MS activities .....	5,261	18,915	15,157	—	9,019
MS band and vocal.....	3,456	4,297	3,496	—	4,257
MS history club.....	—	28,023	27,506	—	517
MS art club .....	28	525	525	—	28
MS industrial arts.....	82	—	—	—	82
MS spin program .....	3,429	170	824	—	2,775
MS memory book .....	293	1,530	1,722	—	101
MS student council .....	875	1,402	1,236	—	1,041
MS musical.....	217	405	318	—	304
Class of 2013 .....	2,022	2,330	2,038	1,066	3,380
Spanish club.....	599	—	—	—	599
Special needs.....	1,645	—	—	—	1,645
Speech and drama .....	206	6,935	6,418	—	723
Rotary corner funds.....	1,551	6,000	6,346	—	1,205
Yearbook.....	393	15,155	14,824	—	724
Fall musical .....	4,015	4,618	5,796	—	2,837
Spring play .....	2,500	250	547	—	2,203
Student activity tickets.....	—	11,680	11,680	—	—
WCL booster club.....	1,347	—	226	—	1,121
Coaches vs. cancer.....	—	3,813	3,807	—	6
Chicago trip .....	634	—	—	—	634
Interest .....	1,423	53	—	—	1,476
<b>Total .....</b>	<b><u>\$ 106,516</u></b>	<b><u>\$ 411,661</u></b>	<b><u>\$ 418,571</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 99,606</u></b>

# Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2014

	<u>Capital Projects</u>		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash, cash equivalents and investments.....	\$ 1,245,565	\$ 333,014	\$ 1,578,579
Receivables			
Property Tax, Net of Allowance			
Current year delinquent .....	—	1,668	1,668
Succeeding year.....	—	138,880	138,880
Due from other funds.....	22,426	—	22,426
Due from other governments.....	<u>340,551</u>	<u>—</u>	<u>340,551</u>
<b>Total Assets .....</b>	<b><u>\$ 1,608,542</u></b>	<b><u>\$ 473,562</u></b>	<b><u>\$ 2,082,104</u></b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable .....	\$ 575,229	\$ —	\$ 575,229
Due to other funds.....	<u>—</u>	<u>5,998</u>	<u>5,998</u>
<b>Total Liabilities.....</b>	<b><u>575,229</u></b>	<b><u>5,998</u></b>	<b><u>581,227</u></b>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue			
Succeeding year property tax .....	<u>—</u>	<u>138,880</u>	<u>138,880</u>
<b>Fund Balances</b>			
Restricted for			
School infrastructure.....	1,033,313	—	1,033,313
Physical plant and equipment.....	<u>—</u>	<u>328,684</u>	<u>328,684</u>
<b>Total Fund Balances.....</b>	<b><u>1,033,313</u></b>	<b><u>328,684</u></b>	<b><u>1,361,997</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances.....</b>	<b><u>\$ 1,608,542</u></b>	<b><u>\$ 473,562</u></b>	<b><u>\$ 2,082,104</u></b>

## Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Capital Projects Accounts

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Year Ended June 30, 2014

	<b>Capital Projects</b>		
	<b>Statewide Sales, Services and Use Tax</b>	<b>Physical Plant and Equipment Levy</b>	<b>Total</b>
<b>Revenue</b>			
Local Sources			
Local taxes .....	\$ —	\$ 125,998	\$ 125,998
Other .....	909,480	112	909,592
State sources .....	<u>972,688</u>	<u>70</u>	<u>972,758</u>
<b>Total Revenue</b> .....	<b><u>1,882,168</u></b>	<b><u>126,180</u></b>	<b><u>2,008,348</u></b>
<b>Expenditures</b>			
Current			
Support Services			
Operation and maintenance of plant .....	—	15,250	15,250
Transportation .....	<u>—</u>	<u>80,185</u>	<u>80,185</u>
Total Support Services.....	<u>—</u>	<u>95,435</u>	<u>95,435</u>
Other Expenditures			
Facilities acquisition.....	2,354,474	—	2,354,474
Long-Term Debt			
Interest and fiscal charges .....	<u>169</u>	<u>—</u>	<u>169</u>
Total Other Expenditures .....	<u>2,354,643</u>	<u>—</u>	<u>2,354,643</u>
<b>Total Expenditures</b> .....	<b><u>2,354,643</u></b>	<b><u>95,435</u></b>	<b><u>2,450,078</u></b>
<b>Revenue Over (Under) Expenditures</b> .....	<b><u>(472,475)</u></b>	<b><u>30,745</u></b>	<b><u>(441,730)</u></b>
<b>Other Financing Sources</b>			
Operating transfers in .....	<u>—</u>	<u>17,105</u>	<u>17,105</u>
<b>Change in Fund Balances</b> .....	<b>(472,475)</b>	<b>47,850</b>	<b>(424,625)</b>
Fund Balances - Beginning of Year, as restated (Note 15).....	<u>1,505,788</u>	<u>280,834</u>	<u>1,786,622</u>
<b>Fund Balances - End of Year</b> .....	<b><u>\$ 1,033,313</u></b>	<b><u>\$ 328,684</u></b>	<b><u>\$ 1,361,997</u></b>

## Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

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For the Last Two Years

	2014	2013
<b>Revenue</b>		
Local Sources		
Local tax .....	\$ 5,560,137	\$ 5,618,020
Tuition.....	841,017	1,347,451
Other.....	1,599,396	1,271,997
State sources .....	8,235,179	6,433,620
Federal sources.....	<u>244,694</u>	<u>242,394</u>
<b>Total .....</b>	<b><u>\$ 16,480,423</u></b>	<b><u>\$ 14,913,482</u></b>
<b>Expenditures</b>		
Instruction		
Regular .....	\$ 5,000,009	\$ 4,832,665
Special.....	2,677,352	3,134,070
Other.....	1,871,162	1,213,561
Support Services		
Student .....	343,190	310,024
Instructional staff.....	424,764	408,839
Administration .....	1,430,355	1,265,331
Operations and maintenance of plant.....	1,337,122	1,199,548
Transportation.....	609,629	507,427
Other Expenditures		
Facilities acquisition .....	2,354,474	394,876
Long-Term Debt		
Principal .....	379,464	1,987,753
Interest and fiscal charges.....	14,203	69,287
AEA flowthrough .....	<u>518,518</u>	<u>456,855</u>
<b>Total .....</b>	<b><u>\$ 16,960,242</u></b>	<b><u>\$ 15,780,236</u></b>

Note - Activity reflected in this schedule for fiscal year 2013 includes activity of the former Forest City Community School District prior to the merger with Woden-Crystal Lake Community School District.

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>U.S. Department of Agriculture - Indirect</b>			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program .....	10.553	FY 14	\$ 47,776
National School Lunch Program .....	10.555	FY 14	291,926*
Summer School Service Program for Children .....	10.559	FY 14	<u>27,669</u>
<b>Total U.S. Department of Agriculture.....</b>			<b><u>367,371</u></b>
<b>U.S. Department of Education - Indirect</b>			
Pass-Through From Area Education Agency 267			
Special Education - Grants to States.....	84.027	FY 14	<u>52,074</u>
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies .....	84.010	FY 14	<u>144,067</u>
Improving Teacher Quality State Grants .....	84.367	FY 14	<u>40,292</u>
Grants for State Assessments and Related Activities .....	84.369	FY 14	<u>6,237</u>
Total Pass-Through From Iowa Department of Education .....			<u>190,596</u>
Pass-Through from Mason City Community School District			
Career and Technical Education - Basic Grants to States .....	84.048	FY 14	<u>2,024</u>
<b>Total U.S. Department of Education</b>			<b><u>244,694</u></b>
<b>Total .....</b>			<b><u>\$ 612,065</u></b>

\* Includes \$52,084 of noncash awards.

## Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Forest City Community School District and is presented on the accrual or modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

## Subrecipients

Forest City Community School District provided no federal awards to subrecipients.

## **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**

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Board of Education  
Forest City Community School District  
Forest City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Forest City Community School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated February 2, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Forest City Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Forest City Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Forest City Community School District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying schedule of findings and questioned costs as items 14-II-R-1, 14-II-R-2 and 14-II-R-3 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Forest City 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we also noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying schedule of findings and questioned costs.

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

**Forest City Community School District's Responses to Findings**

Forest City Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Forest City Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion them.

**Purpose of This Report**

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



HOGAN - HANSEN

Mason City, Iowa  
February 2, 2015

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*A Professional Corporation*

Certified Public Accountants and Consultants

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

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Board of Education  
Forest City Community School District  
Forest City, Iowa

### **Report on Compliance for Each Major Federal Program**

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

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Forest City Community School District's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Forest City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Forest City Community School District's compliance with those requirements.

### **Opinion on Each Major Federal Program**

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

### **Report on Internal Control Over Compliance**

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

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 14-III-R-1 to be a material weakness.

Forest City Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Forest City Community School District's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
February 2, 2015

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

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

### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness identified?  yes  no

Significant deficiency identified not considered to be material weakness?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

### Federal Awards

Internal control over major programs:

Material weakness identified?  yes  no

Significant deficiency identified not considered to be material weakness?  yes  none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?  yes  no

Identification of major programs:

### **CFDA Numbers**

### **Name of Federal Program or Cluster**

Child Nutrition Cluster  
10.553  
10.555  
10.559

School Breakfast Program  
National School Lunch Program  
Summer Food Service Program  
for Children

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2014

## **Part II: Findings Related to the Financial Statements**

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Internal Control Deficiencies**

#### **14-II-R-1 Segregation of Duties**

**Prior Year Finding and Recommendation** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of accounting personnel employed by the District makes it difficult to achieve adequate control procedures through segregation of duties. The concentration of closely related duties and responsibilities, such as recording and preparing cash receipts, preparing and recording checks and preparation of journals and general financial information for posting makes it difficult to establish an adequate system of automatic internal checks on accounting record accuracy and reliability. The potential effect of this material weakness is an error or fraud occurring and not being detected in a timely manner.

We realize that with a limited number of accounting employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. Management should review procedures to ensure receipt, disbursement and reconciliation functions are as separate as possible.

**Current Year Finding** - We found that the same condition still exists.

**Auditor's Recommendation** - We reiterate our prior year recommendation.

**District's Response** - We will review procedures and will implement additional controls where possible.

**Auditor's Conclusion** - Response accepted.

#### **14-II-R-2 Journal Entries**

**Prior Year Finding and Recommendation** - District staff make adjusting journal entries as needed to the general ledger. These journal entries are not reviewed by a second person and supporting documentation is not consistently maintained. The potential effect of this material weakness is an error or fraud occurring and not being detected in a timely manner.

We recommend the District implement procedures to require supporting documentation be maintained for all journal entries. We also recommend a qualified person different from the person who made the journal entry review it to ensure it is properly supported and appropriate.

**Current Year Finding** - We found that the same condition still exists.

**Auditor's Recommendation** - We reiterate our prior year recommendation.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2014

**District's Response** - We will review our procedures related to journal entries and implement procedures for review and supporting documentation maintenance as deemed possible with available staff.

**Auditor's Conclusion** - Response accepted.

### 14-II-R-3 Financial Statement Preparation

**Finding** - The District does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with accounting principles generally accepted in the United States of America. As is inherent in many entities of this size, the District has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare financial statements and the related disclosures. The potential effect of this material weakness is financial statements and related disclosures may not be prepared in accordance with generally accepted accounting principles.

**Auditor's Recommendation** - We recommend obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

**District's Response** - We will consider obtaining additional knowledge where practical and cost effective. However, we intend to continue to rely on assistance from our audit firm to draft these financial statements each year.

**Auditor's Conclusion** - Response accepted.

## **Part III: Findings and Questioned Costs For Federal Awards**

### **Instances of Noncompliance**

There were no reported instances of noncompliance.

### **Internal Control Deficiencies**

### **All Programs Displayed on the Schedule of Expenditures of Federal Awards**

**14-III-R-1 Segregation of Duties** - Adequate control procedures through the segregation of employee (2014-001) duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See finding 14-II-R-1 for additional information.

# Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2014

## **Part IV: Other Findings Related to Statutory Reporting**

### **14-IV-A Certified Budget**

**Findings** - Expenditures for the year ended June 30, 2014 exceeded the amended certified budget amounts in the support services and other expenditures function.

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

**District's Response** - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

**Auditor's Conclusion** - Response accepted.

### **14-IV-B Questionable Expenditures**

**Finding** - We were unable to verify if several credit card disbursements met the requirements of public purpose, as defined in an Attorney General's opinion dated April 25, 1979, because there was insufficient supporting documentation. We also noted an invoice for another District that was approved and paid in error.

**Auditor's Recommendation** - The District should ensure supporting documentation is provided prior to approval of credit card disbursements as set out in the District's credit card policy and document public purpose for disbursements as necessary. In addition, procedures should be reviewed to determine how an invoice for a different school district was paid and make improvements where necessary.

**District's Response** - We will ensure supporting documentation is provided for credit card disbursements prior to approval and document public purpose for disbursements as necessary. We will also review our internal controls over cash disbursements to determine if changes are needed.

**Auditor's Conclusion** - Response accepted.

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

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2014

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

<b>Name, Title and Business Connection</b>	<b>Transaction Description</b>	<b>Amount</b>
Eric Kingland, Board member, owner of Kingland Construction	Elementary school entrance modification - \$186,000 total project	\$131,816 of expenses were incurred in the year ended June 30, 2014

The transaction does not appear to represent a conflict of interest since it was entered into through a competitive bidding process in accordance with Chapters 279.7A and 26.2 through 26.13 of the Code of Iowa.

- 14-IV-E 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 ensure that the coverage is adequate for current operations.

**14-IV-F Board Minutes**

**Finding** - No transactions were found that we believe should have been approved in the Board minutes but were not; however, we did note several instances of Board minutes and schedules of bills allowed that were not published as required by Chapter 279.35 of the Code of Iowa.

**Auditor's Recommendation** - The Board Secretary should furnish a copy of the Board proceedings within two weeks of each meeting and a schedule of bills allowed at least monthly to be published in accordance with the Code of Iowa.

**District's Response** - Procedures will be revised to ensure the Board minutes and schedules of bills allowed are published as required.

**Auditor's Conclusion** - Response accepted.

**14-IV-G Certified Enrollment**

**Finding** - We were unable to verify certified enrollment data because supporting documentation was not provided to us by the District. No variances in the basic enrollment data certified to the Iowa Department of Education were noted from the information available.

**Auditor's Recommendation** - Adequate supporting documentation should be maintained by the District to support enrollment data certified to the Iowa Department of Education.

**District's Response** - We will maintain supporting documentation for enrollment data certified to the Iowa Department of Education.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2014

### 14-IV-H Supplementary Weighting

**Finding** - We were unable to verify supplementary weighting data as supporting documentation was not provided to us by the District. No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted from the information available.

**Auditor's Recommendation** - Adequate supporting documentation should be maintained by the District to support supplementary weighting data certified to the Iowa Department of Education.

**District's Response** - We will maintain supporting documentation for supplementary weighting data certified to the Iowa Department of Education.

**Auditor's Conclusion** - Response accepted.

### 14-IV-I Deposits and Investments

**Finding** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted except that the District exceeded its approved depository limit at one bank as of June 30, 2014. We also noted that no depository limit has been approved for the District's ISJIT accounts.

**Auditor's Recommendation** - The District should review depository limits regularly and approve changes as necessary. A depository limit should be established for the District's ISJIT accounts.

**District's Response** - We will review our procedures regarding depository limits and establish a depository limit for the District's ISJIT accounts.

**Auditor's Conclusion** - Response accepted.

### 14-IV-J Certified Annual Report

**Finding** - The Certified Annual Report (CAR) was certified timely with the Iowa Department of Education, but we noted numerous differences between the amounts reported and the District's general ledger due to adjustments discovered after the CAR was filed.

**Auditor's Recommendation** - Procedures should be established to make sure the CAR is reconciled with accounting records and reviewed by a member of management prior to being filed.

**District's Response** - We will establish procedures to reconcile the report with accounting records.

**Auditor's Conclusion** - Response accepted.

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

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

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

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

Beginning balance, as restated (Note 15).....			\$ 1,505,788
Revenue			
Sales tax revenue .....	\$ 972,688		
Other local revenue .....	<u>909,480</u>	<u>1,882,168</u>	
			3,387,956
Expenditures			
School infrastructure construction.....	\$ 2,354,474		
Other .....	<u>169</u>	<u>2,354,643</u>	
<b>Ending Balance .....</b>			<b><u>\$ 1,033,313</u></b>

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

**14-IV-M Student Activity Fund**

**Finding** - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program. There are some miscellaneous building accounts and an interest account reported in the Special Revenue, Student Activity Fund that do not appear to be extracurricular or co-curricular in nature.

**Auditor's Recommendation** - The District should review and reclassify these accounts to the appropriate fund.

**District's Response** - We have reviewed the activity in the accounts and will reclassify the accounts to the General Fund as necessary.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2014

### 14-IV-N Deficit Fund Balance

**Finding** - The District reported a \$16,396 deficit Debt Service Fund balance as of June 30, 2014.

**Auditor's Recommendation** - The District should continue to monitor this fund and investigate alternatives to eliminate this deficit.

**District's Response and Corrective Action Plan** - We are working on ways to eliminate this deficit.

**Auditor's Conclusion** - Response accepted.

### 14-IV-O Early Retirement

**Finding** - We noted that the District overpaid one retiree's approved early retirement benefit. The District was to pay \$25,000 towards the retiree's health insurance. Due to an error, health insurance payments made by the District exceeded the approved early retirement benefit by \$1,775 for the retiree.

**Auditor's Recommendation** - The District should review its procedures and formulas for calculating early retirement benefit payments. These calculations should be reviewed and approved by another employee.

**District's Response** - We will review our procedures for calculating and approving early retirement benefit payments.

**Auditor's Conclusion** - Response accepted.