

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Fremont-Mills Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------|---------------------|
| Board of Education (Before September 2013 Election) | | |
| Deana Crom | President | 2013 |
| Elizabeth Alexander | Vice President | 2013 |
| Keith Barber | Board Member | 2015 |
| Samantha Wilson | Board Member | 2015 |
| Eli Forney | Board Member | 2015 |
| (After September 2013 Election) | | |
| Elizabeth Alexander | President | 2017 |
| Keith Barber | Vice President | 2015 |
| Darrin Mitchell | Board Member | 2017 |
| Samantha Wilson | Board Member | 2015 |
| Eli Forney | Board Member | 2015 |
| School Officials | | |
| Christopher Herrick | Superintendent | 2014 |
| Susan Sheperd | District Secretary | 2014 |
| Kirsten Heard | Business Manager | 2014 |
| Gruhn Law Firm | Attorney | 2014 |

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Fremont-Mills Community School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fremont-Mills Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2015 on our consideration of Fremont-Mills Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Fremont-Mills Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fremont-Mills Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,268,763 in fiscal 2013 to \$5,080,036 in fiscal 2014, while General Fund expenditures increased from \$4,558,196 in fiscal 2013 to \$4,907,931 in fiscal 2014. This resulted in an increase in the District's General Fund balance from \$1,803,323 at June 30, 2013 to a balance of \$1,975,428 at June 30, 2014, a 9.54% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources in fiscal 2014. The increase in expenditures was primarily in the instruction functional area.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Fremont-Mills 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 Fremont-Mills 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 Fremont-Mills Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Supplementary Information provides detailed information about the nonmajor funds.

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

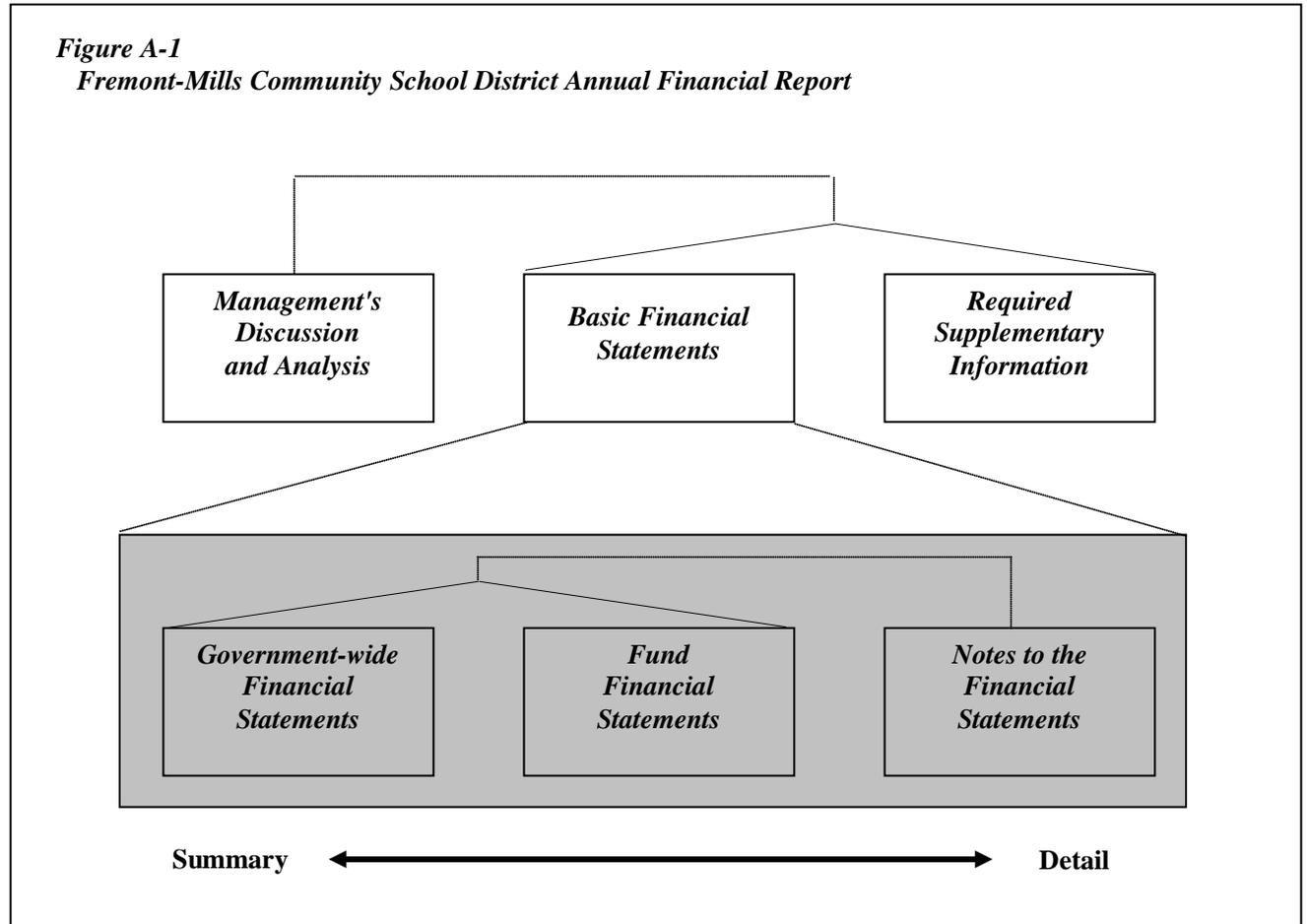


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Agency Fund - These are funds through which the District administers and accounts for certain monies on behalf of other entities.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Position

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|----------------------------------|-------------------------|------------|--------------------------|---------|----------------|------------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Current and other assets | \$ 5,300,006 | 5,073,207 | 4,342 | 2,408 | 5,304,348 | 5,075,615 | 4.51% |
| Capital assets | 7,791,518 | 7,867,938 | 3,696 | 5,363 | 7,795,214 | 7,873,301 | -0.99% |
| Total assets | 13,091,524 | 12,941,145 | 8,038 | 7,771 | 13,099,562 | 12,948,916 | 1.16% |
| Long-term obligations | 2,884,954 | 3,045,945 | - | - | 2,884,954 | 3,045,945 | -5.29% |
| Other liabilities | 481,149 | 692,366 | 12,284 | 10,968 | 493,433 | 703,334 | -29.84% |
| Total liabilities | 3,366,103 | 3,738,311 | 12,284 | 10,968 | 3,378,387 | 3,749,279 | -9.89% |
| Deferred inflows of resources | 1,813,420 | 1,651,424 | - | - | 1,813,420 | 1,651,424 | 9.81% |
| Net position: | | | | | | | |
| Net investment in capital assets | 4,941,518 | 4,862,938 | 3,696 | 5,363 | 4,945,214 | 4,868,301 | 1.58% |
| Restricted | 1,081,968 | 1,010,217 | - | - | 1,081,968 | 1,010,217 | 7.10% |
| Unrestricted | 1,888,515 | 1,678,255 | (7,942) | (8,560) | 1,880,573 | 1,669,695 | 12.63% |
| Total net position | \$ 7,912,001 | 7,551,410 | (4,246) | (3,197) | 7,907,755 | 7,548,213 | 4.76% |

The District's combined net position increased by 4.76%, or \$359,542, over the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$71,751, or 7.10% over the prior year. The increase in restricted net position was a result of the increase in Capital Projects: Statewide Sales, Services and Use Tax Fund balance as compared to the previous year.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$210,878, or 12.63%. This increase in unrestricted net position was primarily a result the District's increase in General Fund balance as compared to the previous year.

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

Figure A-4
Changes in Net Position

| | Governmental Activities | | Business Type Activities | | Total | | Total Change |
|--|-------------------------|-----------|--------------------------|----------|-----------|-----------|--------------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 572,078 | 421,052 | 108,469 | 109,347 | 680,547 | 530,399 | 28.31% |
| Operating grants and contributions and restricted interest | 453,997 | 682,277 | 128,680 | 105,086 | 582,677 | 787,363 | -26.00% |
| Capital grants and contributions and restricted interest | 3,000 | - | - | - | 3,000 | - | 100.00% |
| General revenues: | | | | | | | |
| Property tax | 1,655,580 | 1,574,219 | - | - | 1,655,580 | 1,574,219 | 5.17% |
| Income surtax | 290,589 | 281,086 | - | - | 290,589 | 281,086 | 3.38% |
| Statewide sales, services and use tax | 389,145 | 386,385 | - | - | 389,145 | 386,385 | 0.71% |
| Unrestricted state grants | 2,464,823 | 1,824,728 | - | - | 2,464,823 | 1,824,728 | 35.08% |
| Unrestricted investment earnings | 562 | 2,685 | 49 | 42 | 611 | 2,727 | -77.59% |
| Other | 201,909 | 9,048 | 320 | - | 202,229 | 9,048 | 2135.07% |
| Total revenues | 6,031,683 | 5,181,480 | 237,518 | 214,475 | 6,269,201 | 5,395,955 | 16.18% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 3,518,872 | 3,090,822 | - | - | 3,518,872 | 3,090,822 | 13.85% |
| Support services | 1,644,332 | 1,591,206 | 849 | - | 1,645,181 | 1,591,206 | 3.39% |
| Non-instructional programs | 87 | - | 237,718 | 242,833 | 237,805 | 242,833 | -2.07% |
| Other expenses | 507,801 | 668,604 | - | - | 507,801 | 668,604 | -24.05% |
| Total expenses | 5,671,092 | 5,350,632 | 238,567 | 242,833 | 5,909,659 | 5,593,465 | 5.65% |
| Change in net position | 360,591 | (169,152) | (1,049) | (28,358) | 359,542 | (197,510) | -282.04% |
| Beginning net position | 7,551,410 | 7,720,562 | (3,197) | 25,161 | 7,548,213 | 7,745,723 | -2.55% |
| Ending net position | \$ 7,912,001 | 7,551,410 | (4,246) | (3,197) | 7,907,755 | 7,548,213 | 4.76% |

In fiscal 2014, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 79.58% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.84% of the revenue from business type activities.

The District's total revenues were approximately \$6.27 million of which approximately \$6.03 million was for governmental activities and approximately \$0.24 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 16.18% increase in revenues and a 5.65% increase in expenses. Unrestricted state grant funding increased \$640,095 to help fund the increase in expenses. The increase in expenses was related to an increase in the instruction functional area.

Governmental Activities

Revenues for governmental activities were \$6,031,683 and expenses were \$5,671,092.

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

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | | | Net Cost of Services | | |
|----------------------------|------------------------|-----------|-------------------|----------------------|-----------|-------------------|
| | 2014 | 2013 | Change 2013-14 | 2014 | 2013 | Change 2013-14 |
| Instruction | \$ 3,518,872 | 3,090,822 | 13.85% | 2,670,219 | 2,194,560 | 21.67% |
| Support services | 1,644,332 | 1,591,206 | 3.34% | 1,641,332 | 1,566,827 | 4.76% |
| Non-instructional programs | 87 | - | 100.00% | 87 | (14,055) | -100.62% |
| Other expenses | 507,801 | 668,604 | -24.05% | 330,379 | 499,971 | -33.92% |
| Totals | \$ 5,671,092 | 5,350,632 | 5.99% | 4,642,017 | 4,247,303 | 9.29% |

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$572,078.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$456,997.
- The net cost of governmental activities was financed with \$1,655,580 in property tax, \$290,589 in income surtax, \$389,145 in statewide sales, services and use tax, \$2,464,823 in unrestricted state grants, \$562 in unrestricted investment earnings, and \$201,909 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$237,518 and expenses were \$238,567. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,718,604, above last year's ending fund balances of \$2,399,214. The primary reason for the increase in combined fund balances in fiscal 2014 is due to the increase in the fund balance for General Fund.

Governmental Fund Highlights

- Overall, revenues in the General Fund for fiscal 2014 increased 19.00% or \$811,273, to \$5,080,036 compared to \$4,268,763 in fiscal 2013. General Fund expenses increased by 7.67% or \$349,735, to \$4,907,931 compared to \$4,558,196 in fiscal 2013. The General Fund balance increased \$172,105.

- The Capital Projects Accounts balance increased from \$458,650 in fiscal 2013 to \$622,459 in fiscal 2014. The increase in fund balance was due primarily to an increase in local tax revenues.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from a deficit balance of \$3,197 at June 30, 2013 to a deficit balance of \$4,246 at June 30, 2014, representing an decrease of 32.81%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$377,259 more than budgeted revenues, a variance of 6.35%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$7,795,214, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$294,968.

The original cost of the District's capital assets was \$11,086,538. Governmental funds account for \$10,997,780 with the remainder of \$88,758 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$426,970 at June 30, 2014, compared to \$349,748 reported at June 30, 2013. This increase resulted from the District purchasing a new school bus and van.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|----------------------------|-------------------------|-----------|--------------------------|-------|----------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 | 2013-14 |
| Land | \$ 40,000 | 40,000 | - | - | 40,000 | 40,000 | 0.00% |
| Buildings and improvements | 6,935,488 | 7,124,219 | - | - | 6,935,488 | 7,124,219 | -2.65% |
| Land improvements | 392,756 | 359,334 | - | - | 392,756 | 359,334 | 9.30% |
| Machinery and equipment | 423,274 | 344,385 | 3,696 | 5,363 | 426,970 | 349,748 | 22.08% |
| Total | \$ 7,791,518 | 7,867,938 | 3,696 | 5,363 | 7,795,214 | 7,873,301 | -0.99% |

Long-Term Debt

At June 30, 2014, the District had \$2,884,954 in long-term debt outstanding. This represents a decrease of 5.29% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation indebtedness of \$2,850,000 at June 30, 2014.

The District had total termination benefits payable of \$7,817 at June 30, 2014.

The District had total outstanding other postemployment benefits payable of \$27,137 at June 30, 2014.

Figure A-7
Outstanding Long-Term Obligations

| | Total District | | Total Change |
|--------------------------|---------------------|------------------|---------------|
| | June 30, | | June 30, |
| | 2014 | 2013 | 2013-14 |
| General obligation bonds | \$ 2,850,000 | 3,005,000 | -5.16% |
| Termination benefits | 7,817 | 21,856 | -64.23% |
| Net OPEB liability | 27,137 | 19,089 | 42.16% |
| Totals | <u>\$ 2,884,954</u> | <u>3,045,945</u> | <u>-5.29%</u> |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The District's 2014 weighted enrollment increased. This increase in weighted enrollment will improve the District's funding for fiscal year 2016, however it reflects funding based on sharing programs with a neighboring district which will be gradually phased out over a three year period.

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 Kirsten Heard, Business Manager, Fremont-Mills Community School District, 1114 US Hwy 275, Tabor, Iowa, 51653.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| ASSETS | | | |
| Cash and pooled investments | \$ 2,915,565 | 1,150 | 2,916,715 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 20,986 | - | 20,986 |
| Succeeding year | 1,813,420 | - | 1,813,420 |
| Income surtax | 299,597 | - | 299,597 |
| Accounts | 80,642 | 1,640 | 82,282 |
| Due from other funds | 9,141 | - | 9,141 |
| Due from other governments | 160,655 | - | 160,655 |
| Inventories | - | 1,552 | 1,552 |
| Capital assets, net of accumulated depreciation | 7,791,518 | 3,696 | 7,795,214 |
| TOTAL ASSETS | 13,091,524 | 8,038 | 13,099,562 |
| LIABILITIES | | | |
| Due to other funds | - | 9,141 | 9,141 |
| Accounts payable | 61,262 | - | 61,262 |
| Salaries and benefits payable | 390,962 | - | 390,962 |
| Advances from grantors | 10,409 | - | 10,409 |
| Interest payable | 18,516 | - | 18,516 |
| Unearned revenue | - | 3,143 | 3,143 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 160,000 | - | 160,000 |
| Termination benefits payable | 7,817 | - | 7,817 |
| Portion due after one year: | | | |
| General obligation bonds payable | 2,690,000 | - | 2,690,000 |
| Net OPEB liability | 27,137 | - | 27,137 |
| TOTAL LIABILITIES | 3,366,103 | 12,284 | 3,378,387 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable property tax revenue | 1,813,420 | - | 1,813,420 |
| NET POSITION | | | |
| Net investment in capital assets | 4,941,518 | 3,696 | 4,945,214 |
| Restricted for: | | | |
| Categorical funding | 341,869 | - | 341,869 |
| Management levy purposes | 93,505 | - | 93,505 |
| Student activities | 24,135 | - | 24,135 |
| School infrastructure | 603,528 | - | 603,528 |
| Physical plant and equipment | 18,931 | - | 18,931 |
| Unrestricted | 1,888,515 | (7,942) | 1,880,573 |
| TOTAL NET POSITION | \$ 7,912,001 | (4,246) | 7,907,755 |

SEE NOTES TO FINANCIAL STATEMENTS.

**FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Position | | |
|------------------------------------|---------------------|----------------|---|---|--|--------------------------------|--------------------|
| | Expenses | Charges | Operating Grants, | Capital Grants, | Governmental Activities | Business Type Activities | Total |
| | | for Service | Contributions and Restricted Interest | Contributions and Restricted Interest | | | |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 2,256,910 | 434,656 | 64,288 | - | (1,757,966) | - | (1,757,966) |
| Special | 644,066 | 26,770 | 20,740 | - | (596,556) | - | (596,556) |
| Other | 617,896 | 110,652 | 191,547 | - | (315,697) | - | (315,697) |
| | <u>3,518,872</u> | <u>572,078</u> | <u>276,575</u> | <u>-</u> | <u>(2,670,219)</u> | <u>-</u> | <u>(2,670,219)</u> |
| Support services: | | | | | | | |
| Student | 68,005 | - | - | - | (68,005) | - | (68,005) |
| Instructional staff | 179,705 | - | - | - | (179,705) | - | (179,705) |
| Administration | 640,478 | - | - | - | (640,478) | - | (640,478) |
| Operation and maintenance of plant | 471,331 | - | - | 3,000 | (468,331) | - | (468,331) |
| Transportation | 284,813 | - | - | - | (284,813) | - | (284,813) |
| | <u>1,644,332</u> | <u>-</u> | <u>-</u> | <u>3,000</u> | <u>(1,641,332)</u> | <u>-</u> | <u>(1,641,332)</u> |
| Non-instructional programs: | | | | | | | |
| Community service operations | 87 | - | - | - | (87) | - | (87) |
| Long-term debt interest | 113,699 | - | - | - | (113,699) | - | (113,699) |
| Other expenses: | | | | | | | |
| AEA flowthrough | 177,422 | - | 177,422 | - | - | - | - |
| Depreciation(unallocated)* | 216,680 | - | - | - | (216,680) | - | (216,680) |
| | <u>394,102</u> | <u>-</u> | <u>177,422</u> | <u>-</u> | <u>(216,680)</u> | <u>-</u> | <u>(216,680)</u> |
| Total governmental activities | 5,671,092 | 572,078 | 453,997 | 3,000 | (4,642,017) | - | (4,642,017) |
| Business type activities: | | | | | | | |
| Support services: | | | | | | | |
| Administration | 849 | - | - | - | - | (849) | (849) |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 237,718 | 108,469 | 128,680 | - | - | (569) | (569) |
| Total business type activities | <u>238,567</u> | <u>108,469</u> | <u>128,680</u> | <u>-</u> | <u>-</u> | <u>(1,418)</u> | <u>(1,418)</u> |
| Total | <u>\$ 5,909,659</u> | <u>680,547</u> | <u>582,677</u> | <u>3,000</u> | <u>(4,642,017)</u> | <u>(1,418)</u> | <u>(4,643,435)</u> |
| General Revenues: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | | | | \$ | 1,375,304 | - | 1,375,304 |
| Debt service | | | | | 150,763 | - | 150,763 |
| Capital outlay | | | | | 129,513 | - | 129,513 |
| Income surtax | | | | | 290,589 | - | 290,589 |
| Statewide sales and services tax | | | | | 389,145 | - | 389,145 |
| Unrestricted state grants | | | | | 2,464,823 | - | 2,464,823 |
| Unrestricted investment earnings | | | | | 562 | 49 | 611 |
| Other general revenues | | | | | 201,909 | 320 | 202,229 |
| Total general revenues | | | | | <u>5,002,608</u> | <u>369</u> | <u>5,002,977</u> |
| Change in net position | | | | | 360,591 | (1,049) | 359,542 |
| Net position beginning of year | | | | | <u>7,551,410</u> | <u>(3,197)</u> | <u>7,548,213</u> |
| Net position end of year | | | | | <u>\$ 7,912,001</u> | <u>(4,246)</u> | <u>7,907,755</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

| | General | Capital Projects | Nonmajor | Total |
|---|---------------------|---------------------|----------------|------------------|
| ASSETS | | | | |
| Cash and pooled investments | \$ 2,255,443 | 537,345 | 117,025 | 2,909,813 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 16,476 | 1,648 | 2,862 | 20,986 |
| Succeeding year | 1,464,256 | 137,966 | 211,198 | 1,813,420 |
| Income surtax | 187,248 | 112,349 | - | 299,597 |
| Accounts | 79,812 | - | 830 | 80,642 |
| Due from other funds | 6,370 | 16,986 | - | 23,356 |
| Due from other governments | 94,175 | 66,480 | - | 160,655 |
| TOTAL ASSETS | \$ 4,103,780 | 872,774 | 331,915 | 5,308,469 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Due to other funds | \$ 14,215 | - | - | 14,215 |
| Accounts payable | 61,262 | - | - | 61,262 |
| Salaries and benefits payable | 390,962 | - | - | 390,962 |
| Advances from grantors | 10,409 | - | - | 10,409 |
| Total liabilities | 476,848 | - | - | 476,848 |
| Deferred inflows of resources: | | | | |
| Unavailable revenues: | | | | |
| Succeeding year property tax | 1,464,256 | 137,966 | 211,198 | 1,813,420 |
| Income surtax | 187,248 | 112,349 | - | 299,597 |
| Total deferred inflows of resources | 1,651,504 | 250,315 | 211,198 | 2,113,017 |
| Fund balances: | | | | |
| Restricted for: | | | | |
| Categorical funding | 341,869 | - | - | 341,869 |
| Debt service | - | - | 3,077 | 3,077 |
| Management levy purposes | - | - | 93,505 | 93,505 |
| Student activities | - | - | 24,135 | 24,135 |
| School infrastructure | - | 603,528 | - | 603,528 |
| Physical plant and equipment | - | 18,931 | - | 18,931 |
| Unassigned | 1,633,559 | - | - | 1,633,559 |
| Total fund balances | 1,975,428 | 622,459 | 120,717 | 2,718,604 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 4,103,780 | 872,774 | 331,915 | 5,308,469 |

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | | |
|---|-----------|--------------------------------|
| Total fund balances of governmental funds (page 20) | \$ | 2,718,604 |
| <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 report as assets in in the governmental funds. | | 7,791,518 |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. | | (18,516) |
| Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds. | | 299,597 |
| Blending of the Internal Service Funds to be reflected on an entity-wide basis | | 5,752 |
| Long-term liabilities, including bonds payable, termination benefits payable and other post employment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | | <u>(2,884,954)</u> |
| Net position of governmental activities (page 18) | \$ | <u><u>7,912,001</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

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

| | General | Capital Projects | Nonmajor | Total |
|--|---------------------|---------------------|----------------|------------------|
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 1,510,921 | 255,978 | 225,922 | 1,992,821 |
| Tuition | 441,648 | - | - | 441,648 |
| Other | 231,669 | 30 | 125,105 | 356,804 |
| State sources | 2,747,454 | 392,202 | 147 | 3,139,803 |
| Federal sources | 147,259 | - | - | 147,259 |
| Total revenues | <u>5,078,951</u> | <u>648,210</u> | <u>351,174</u> | <u>6,078,335</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 2,226,811 | 23,044 | 40,733 | 2,290,588 |
| Special | 643,561 | - | - | 643,561 |
| Other | 484,919 | 4,110 | 130,346 | 619,375 |
| | <u>3,355,291</u> | <u>27,154</u> | <u>171,079</u> | <u>3,553,524</u> |
| Support services: | | | | |
| Student | 67,987 | - | - | 67,987 |
| Instructional staff | 171,049 | - | 8,450 | 179,499 |
| Administration | 607,910 | 39,292 | 2,000 | 649,202 |
| Operation and maintenance of plant | 297,436 | 50,163 | 21,564 | 369,163 |
| Transportation | 230,471 | 77,675 | 15,663 | 323,809 |
| | <u>1,374,853</u> | <u>167,130</u> | <u>47,677</u> | <u>1,589,660</u> |
| Non-instructional programs: | | | | |
| Community service operations | 87 | - | - | 87 |
| Capital outlay | - | 170,117 | - | 170,117 |
| Long-term debt: | | | | |
| Principal | - | - | 155,000 | 155,000 |
| Interest and fiscal charges | - | - | 114,220 | 114,220 |
| | <u>-</u> | <u>-</u> | <u>269,220</u> | <u>269,220</u> |
| Other expenditures: | | | | |
| AEA flowthrough | 177,422 | - | - | 177,422 |
| Total expenditures | <u>4,907,653</u> | <u>364,401</u> | <u>487,976</u> | <u>5,760,030</u> |
| Excess(Deficiency) of revenues over(under) expenditures | 171,298 | 283,809 | (136,802) | 318,305 |
| Other financing sources(uses): | | | | |
| Transfer in | - | - | 120,278 | 120,278 |
| Transfer out | (278) | (120,000) | - | (120,278) |
| Sale of equipment | 1,085 | - | - | 1,085 |
| Total other financing sources(uses) | <u>807</u> | <u>(120,000)</u> | <u>120,278</u> | <u>1,085</u> |
| Change in fund balances | 172,105 | 163,809 | (16,524) | 319,390 |
| Fund balances beginning of year | <u>1,803,323</u> | <u>458,650</u> | <u>137,241</u> | <u>2,399,214</u> |
| Fund balances end of year | <u>\$ 1,975,428</u> | <u>622,459</u> | <u>120,717</u> | <u>2,718,604</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

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

Change in fund balances - total governmental funds (page 22) \$ 319,390

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

Capital outlay 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 outlay and depreciation expense in the year are as follows:

| | | |
|----------------------|------------------|----------|
| Capital outlay | \$ 216,881 | |
| Depreciation expense | <u>(293,301)</u> | (76,420) |

| | |
|---|-------|
| Net change in Internal Service Funds charged back against expenditures made for the flex benefit program at an entity-wide basis. | 2,761 |
|---|-------|

| | |
|--|----------|
| Income surtax account receivable is not available to finance expenditures of the current year period and is recognized as deferred inflows of resources in the governmental funds. | (46,652) |
|--|----------|

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Current year repayments exceeded issues, as follows:

| | |
|--------|---------|
| Repaid | 155,000 |
|--------|---------|

| | |
|--|-----|
| Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. | 521 |
|--|-----|

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

| | | |
|-------------------------------|---------------|--------------|
| Termination benefits | \$ (8,048) | |
| Other postemployment benefits | <u>14,039</u> | <u>5,991</u> |

Change in net position of governmental activities (page 19) \$ 360,591

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUNDS
JUNE 30, 2014

| | Business Type | |
|---|-----------------------------------|--|
| | Enterprise School Nutrition | Governmental Activities: Internal Service |
| ASSETS | | |
| Current assets: | | |
| Cash and pooled investments | \$ 1,150 | 5,752 |
| Accounts receivable | 1,640 | - |
| Inventories | 1,552 | - |
| Total current assets | <u>4,342</u> | <u>5,752</u> |
| Non-current assets: | | |
| Capital assets, net of accumulated depreciation | 3,696 | - |
| TOTAL ASSETS | <u>8,038</u> | <u>5,752</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Due to other funds | 9,141 | - |
| Unearned revenue | 3,143 | - |
| TOTAL LIABILITIES | <u>12,284</u> | <u>-</u> |
| NET POSITION | | |
| Net investment in capital assets | 3,696 | - |
| Unrestricted | (7,942) | 5,752 |
| TOTAL NET POSITION | <u>\$ (4,246)</u> | <u>5,752</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2014

| | Business Type | |
|----------------------------------|--|--|
| | Activities: Enterprise School Nutrition | Governmental Activities: Internal Service |
| OPERATING REVENUE: | | |
| Local sources: | | |
| Charges for services | \$ 108,469 | - |
| Miscellaneous | 320 | 10,348 |
| TOTAL OPERATING REVENUES | <u>108,789</u> | <u>10,348</u> |
| OPERATING EXPENSES: | | |
| Support services: | | |
| Administration: | | |
| Other | 849 | - |
| Non-instructional programs: | | |
| Food service operations: | | |
| Salaries | 91,171 | - |
| Benefits | 6,425 | - |
| Supplies | 138,455 | - |
| Depreciation | 1,667 | - |
| | <u>237,718</u> | <u>-</u> |
| Other enterprise operations: | | |
| Benefits | - | 7,587 |
| Total non-instructional programs | <u>237,718</u> | <u>7,587</u> |
| TOTAL OPERATING EXPENSES | <u>238,567</u> | <u>7,587</u> |
| OPERATING INCOME(LOSS) | <u>(129,778)</u> | <u>2,761</u> |
| NON-OPERATING REVENUES: | | |
| State sources | 2,262 | - |
| Federal sources | 126,418 | - |
| Interest income | 49 | - |
| TOTAL NON-OPERATING REVENUES | <u>128,729</u> | <u>-</u> |
| Change in net position | (1,049) | 2,761 |
| Net position beginning of year | <u>(3,197)</u> | <u>2,991</u> |
| Net position end of year | <u>\$ (4,246)</u> | <u>5,752</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2014

| | Business Type | |
|---|--|--|
| | Activities: Enterprise School Nutrition | Governmental Activities: Internal Service |
| Cash flows from operating activities: | | |
| Cash received from operating activities | \$ 108,266 | - |
| Cash received from miscellaneous operating activities | 320 | 10,348 |
| Cash payments to employees for services | (97,596) | (14,067) |
| Cash payments to suppliers for goods or services | (133,194) | - |
| Net cash used in operating activities | <u>(122,204)</u> | <u>(3,719)</u> |
| Cash flows from non-capital financing activities: | | |
| Borrowings from General Fund | 6,370 | - |
| Borrowings from Capital Projects: Physical Plant and Equipment Levy Fund | 2,771 | - |
| State grants received | 2,262 | - |
| Federal grants received | 118,272 | - |
| Net cash provided by non-capital financing activities | <u>129,675</u> | <u>-</u> |
| Cash flows from investing activities: | | |
| Interest on investment | 49 | - |
| Net increase(decrease) in cash and cash equivalents | 7,520 | (3,719) |
| Cash and cash equivalents at beginning of year | (6,370) | 9,471 |
| Cash and cash equivalents at end of year | <u>\$ 1,150</u> | <u>5,752</u> |
| Reconciliation of operating income(loss) to net cash used in operating activities: | | |
| Operating income(loss) | \$ (129,778) | 2,761 |
| Adjustments to reconcile operating income(loss) to net cash used in operating activities: | | |
| Commodities consumed | 8,146 | - |
| Depreciation | 1,667 | - |
| Increase in inventories | (37) | - |
| Increase in accounts receivable | (747) | - |
| Decrease in accounts payable | (1,999) | (6,480) |
| Increase in unearned revenue | 544 | - |
| Net cash used in operating activities | <u>\$ (122,204)</u> | <u>(3,719)</u> |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2014, the District received Federal commodities valued at \$8,146.

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2014

| | Private Purpose Trust | |
|-----------------------------|--------------------------|--------------|
| | Scholarship | Agency |
| ASSETS | | |
| Cash and pooled investments | \$ 36,625 | 5,569 |
| Interest receivable | 18 | - |
| TOTAL ASSETS | <u>36,643</u> | <u>5,569</u> |
| LIABILITIES | | |
| Due to other groups | <u>-</u> | <u>5,569</u> |
| NET POSITION | | |
| Restricted for scholarships | <u>\$ 36,643</u> | <u>-</u> |

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2014

| | <u>Private Purpose Trust Scholarship</u> |
|--------------------------------|--|
| Additions: | |
| Local sources: | |
| Interest income | <u>\$ 92</u> |
| Deductions: | |
| Instruction: | |
| Regular: | |
| Scholarships awarded | <u>92</u> |
| Change in net position | - |
| Net position beginning of year | <u>36,643</u> |
| Net position end of year | <u><u>\$ 36,643</u></u> |

SEE NOTES TO FINANCIAL STATEMENTS.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies

The Fremont-Mills Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the cities of Tabor, Thurman and Randolph, Iowa, and the predominantly agricultural territory in Mills and Fremont Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Fremont-Mills 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 Fremont-Mills Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The District also reports the following nonmajor proprietary funds:

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

The District's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's employee flexible benefit plan.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

Property Taxes - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recorded 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 1½% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

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

Inventories - The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The enterprise fund inventory consists primarily of food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

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

| Asset Class | Amount |
|---------------------------------|--------|
| Land | \$ - |
| Buildings and improvements | 2,000 |
| Land improvements | 2,000 |
| Intangibles | 25,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 2,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|----------------------------|-----------------------------------|
| Buildings and improvements | 50 years |
| Land improvements | 20 years |
| Intangibles | 3-10 years |
| Machinery and equipment | 5-20 years |

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2014, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2014.

Deferred Inflows of Resources - Although certain revenues are measurable, they are 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of succeeding year property tax receivable, and other receivables not collected within sixty days after year end.

Deferred inflow 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.

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

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

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

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

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

Unassigned - All amounts not included in other spendable classifications. Negative unassigned balances may be reported in other governmental funds when expenditures incurred for specific purposes exceed the amounts restricted or assigned.

E. Budgeting and Budgetary Control

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

Note 2. Deposits and Pooled Investments

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

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,153,144 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 and Poor's Financial Services.

Investments in common stock are stated at the approximate fair value based on the closing price for the stock on June 30, 2014. Securities traded on a national or international exchange are valued at the last reported sales price at the current exchange rates. At June 30, 2014, the District owned 1,979 shares of Principal stock at a fair value of \$99,900.

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Note 3. Due From and Due to Other Funds

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

| Receivable Fund | Payable Fund | Amount |
|--|-------------------|------------------|
| General | Student Nutrition | \$ 6,370 |
| Capital Projects: Physical Plant and Equipment Levy | General | 14,215 |
| Capital Projects: Physical Plant and Equipment Levy | Student Nutrition | 2,771 |
| Total | | <u>\$ 23,356</u> |

The Student Nutrition Fund is repaying the General Fund for salaries and benefits not repaid before year end.

The General Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for routine maintenance to District facilities. See comment II-R-14 for additional information.

The Student Nutrition Fund is repaying the Capital Projects: Physical Plant and Equipment Levy Fund for repairs/maintenance to Nutrition Fund equipment. See comment II-R-14 for additional information.

Note 4. Transfers

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

| Transfer to | Transfer from | Amount |
|------------------|--|-------------------|
| Debt Service | Capital Projects: Statewide Sales, Services and Use Tax | \$ 120,000 |
| Student Activity | General | 278 |
| Total | | <u>\$ 120,278</u> |

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

The transfer from the General Fund to the Student Activity Fund was to cover a negative in the District's Annual account in the Student Activity Fund. See comment II-Q-14 for additional information.

Note 5. Capital Assets

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

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|----------------|-----------|---------------------------|
| Business type activities: | | | | |
| Machinery and equipment | \$ 96,234 | - | 7,476 | 88,758 |
| Less accumulated depreciation | 90,871 | 1,667 | 7,476 | 85,062 |
| Business-type activities capital assets, net | <u>\$ 5,363</u> | <u>(1,667)</u> | <u>-</u> | <u>3,696</u> |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 40,000 | - | - | 40,000 |
| Total capital assets not being depreciated | 40,000 | - | - | 40,000 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 9,275,256 | - | - | 9,275,256 |
| Land improvements | 528,744 | 61,371 | - | 590,115 |
| Machinery and equipment | 1,069,481 | 155,510 | 132,582 | 1,092,409 |
| Total capital assets being depreciated | 10,873,481 | 216,881 | 132,582 | 10,957,780 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 2,151,037 | 188,731 | - | 2,339,768 |
| Land improvements | 169,410 | 27,949 | - | 197,359 |
| Machinery and equipment | 725,096 | 76,621 | 132,582 | 669,135 |
| Total accumulated depreciation | 3,045,543 | 293,301 | 132,582 | 3,206,262 |
| Total capital assets being depreciated, net | 7,827,938 | (76,420) | - | 7,751,518 |
| Governmental activities capital assets, net | \$ 7,867,938 | (76,420) | - | 7,791,518 |

Depreciation expense was charged by the District as follows:

Governmental activities:

| | | |
|--|--|-------------------|
| Instruction: | | |
| Regular | | \$ 19,975 |
| Other | | 8,820 |
| Support services: | | |
| Operation and maintenance of plant | | 4,968 |
| Transportation | | 42,858 |
| | | <u>76,621</u> |
| Unallocated depreciation | | <u>216,680</u> |
| Total governmental activities depreciation expense | | <u>\$ 293,301</u> |

Business type activities:

| | | |
|---------------|--|-----------------|
| Food services | | <u>\$ 1,667</u> |
|---------------|--|-----------------|

Note 6. Long-Term Liabilities

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

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|---------------------------------|---------------------------------|-----------|-----------|---------------------------|---------------------------|
| Governmental Activities: | | | | | |
| General obligation bonds | \$ 3,005,000 | - | 155,000 | 2,850,000 | 160,000 |
| Termination benefits | 21,856 | - | 14,039 | 7,817 | 7,817 |
| Net OPEB liability | 19,089 | 8,048 | - | 27,137 | - |
| Total | \$ 3,045,945 | 8,048 | 169,039 | 2,884,954 | 167,817 |

General Obligation Bonds Payable

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

| Year | Bond Issue of August 2008 | | | Refunding Bond Issue of November 2010 | | | Total | | |
|-----------|---------------------------|--------------|----------|---------------------------------------|--------------|----------|--------------|-----------|-----------|
| Ending | Interest | | Interest | | Interest | | Interest | | Total |
| June 30, | Rate | Principal | Interest | Rate | Principal | Interest | Principal | Interest | Total |
| 2015 | 5.00 % | \$ 40,000 | 85,398 | 1.50 % | \$ 120,000 | 25,697 | 160,000 | 111,095 | 271,095 |
| 2016 | 5.00 | 40,000 | 83,398 | 1.90 | 120,000 | 23,898 | 160,000 | 107,296 | 267,296 |
| 2017 | 5.00 | 40,000 | 81,398 | 2.15 | 130,000 | 21,617 | 170,000 | 103,015 | 273,015 |
| 2018 | 5.00 | 40,000 | 79,398 | 2.30 | 130,000 | 18,823 | 170,000 | 98,221 | 268,221 |
| 2019 | 5.00 | 45,000 | 77,397 | 2.60 | 135,000 | 15,833 | 180,000 | 93,230 | 273,230 |
| 2020-2024 | 4.60-5.00 | 590,000 | 343,709 | 2.75-3.15 | 415,000 | 25,342 | 1,005,000 | 369,051 | 1,374,051 |
| 2025-2028 | 4.65-4.80 | 1,005,000 | 122,136 | - | - | - | 1,005,000 | 122,136 | 1,127,136 |
| Total | | \$ 1,800,000 | 872,834 | | \$ 1,050,000 | 131,210 | \$ 2,850,000 | 1,004,044 | 3,854,044 |

Termination Benefits

The District offered a voluntary early retirement plan to employees during fiscal year 2013. Eligible employees must have completed at least fifteen years of continuous service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits are equal to one-half of the employee's annual base salary, not including any supplemental payments received by the employee for extracurricular or co-curricular duties, in effect during the employee's last year of employment.

Early retirement benefits will be paid in three equal installments beginning in October following the start of retirement. The second payment will be paid the following February, and the third and final payment shall be paid during February of the next year.

At June 30, 2014, the District has obligations to two participants with a total liability of \$7,817. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$14,039.

Note 7. 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 33 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through 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 that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for 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 | \$ 7,892 |
| Interest on net OPEB obligation | 954 |
| Adjustment to annual required contribution | <u>(798)</u> |
| Annual OPEB cost | 8,048 |
| Contributions made | <u>-</u> |
| Increase in net OPEB obligation | 8,048 |
| Net OPEB obligation beginning of year | <u>19,089</u> |
| Net OPEB obligation end of year | <u><u>\$ 27,137</u></u> |

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

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

| Year Ended June 30, | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------------|------------------|--|---------------------|
| 2012 | \$ 39,669 | 73.0 % | \$ 44,844 |
| 2013 | 8,337 | 409.0 | 19,089 |
| 2014 | 8,048 | - | 27,137 |

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$86,311, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$86,311. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,720,260, and the ratio of the UAAL to covered payroll was 5.0%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2012 actuarial valuation date, the alternative measurement method was used. The actuarial assumptions include a 5% discount rate based on the District's funding policy. The projected annual medical trend rate is 5%.

Mortality rates are from the *Life Expectancy Table* from the National Center for Health Statistics, updated in 2008. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual salary and the District is required to contribute 8.93% of annual covered. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$228,409, \$210,267, and \$181,848 respectively, equal to the required contributions for each year.

Note 9. Risk Management

The Fremont-Mills Community School District is a member in the Iowa School Employees Benefits Association, fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: health, dental, and vision.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2014 was \$292,998.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

Fremont-Mills Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$177,422 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Deficit Fund Balance/Net Position

At June 30, 2014, the Enterprise, School Nutrition fund had an unrestricted net position deficit balance of \$7,942 and a deficit fund balance of \$4,246.

Note 12. Categorical Funding

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

| <u>Program</u> | <u>Amount</u> |
|--|-------------------|
| At-risk supplemental weighting | \$ 13,739 |
| Gifted and talented | 38,510 |
| Educator quality, basic salary | 45,056 |
| State decategorization grant (D-CAT) | 1,579 |
| Innovative at-risk | 6,253 |
| Four-year-old preschool | 107,608 |
| Early childhood programs grant (empowerment) | 26,262 |
| Model core curriculum | 5,000 |
| Successful progression for early readers | 15,311 |
| Professional development for model core curriculum | 18,493 |
| Teacher development academies | 10,607 |
| Educator quality, professional development | 46,830 |
| Market factor incentives | 9 |
| Teacher leadership grants | 6,612 |
| Total restricted for categorical funding | <u>\$ 341,869</u> |

Note 13. Detailed Reconciliation of Governmental Fund Balances to Net Position

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

| | <u>Net Investment in Capital Assets</u> | <u>Debt Service</u> | <u>Unassigned/ Unrestricted</u> |
|--|---|-------------------------|-------------------------------------|
| Fund balance (Exhibit C) | \$ - | 3,077 | 1,633,559 |
| Capital assets, net of accumulated depreciation | 7,791,518 | - | - |
| General obligation bond capitalized indebtedness | (2,850,000) | - | - |
| Termination benefits payable | - | - | (7,817) |
| Income surtax | - | - | 299,597 |
| Accrued interest payable | - | (3,077) | (15,439) |
| Internal service fund | - | - | 5,752 |
| Net OPEB liability | - | - | (27,137) |
| Net position (Exhibit A) | <u>\$ 4,941,518</u> | <u>-</u> | <u>1,888,515</u> |

Note 14. Prospective Accounting Change

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

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|--|---------------------|----------------|------------------|------------------|------------------|--------------------------------|
| | Fund | Fund | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 2,791,273 | 108,838 | 2,900,111 | 2,612,502 | 2,612,502 | 287,609 |
| State appropriations | 3,139,803 | 2,262 | 3,142,065 | 3,066,092 | 3,066,092 | 75,973 |
| Federal appropriations | 147,259 | 126,418 | 273,677 | 260,000 | 260,000 | 13,677 |
| Total revenues | <u>6,078,335</u> | <u>237,518</u> | <u>6,315,853</u> | <u>5,938,594</u> | <u>5,938,594</u> | <u>377,259</u> |
| Expenditures/expenses: | | | | | | |
| Instruction | 3,553,524 | - | 3,553,524 | 5,050,000 | 5,050,000 | 1,496,476 |
| Support services | 1,589,660 | 849 | 1,590,509 | 1,998,500 | 1,998,500 | 407,991 |
| Non-instructional programs | 87 | 237,718 | 237,805 | 250,000 | 250,000 | 12,195 |
| Other expenditures/expenses | 616,759 | - | 616,759 | 836,369 | 836,369 | 219,610 |
| Total expenditures/expenses | <u>5,760,030</u> | <u>238,567</u> | <u>5,998,597</u> | <u>8,134,869</u> | <u>8,134,869</u> | <u>2,136,272</u> |
| Excess(Deficiency) of revenues over(under) expenditures/expenses | 318,305 | (1,049) | 317,256 | (2,196,275) | (2,196,275) | 2,513,531 |
| Other financing sources, net | <u>1,085</u> | <u>-</u> | <u>1,085</u> | <u>-</u> | <u>-</u> | <u>1,085</u> |
| Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses | 319,390 | (1,049) | 318,341 | (2,196,275) | (2,196,275) | 2,514,616 |
| Balance beginning of year | <u>2,399,214</u> | <u>(3,197)</u> | <u>2,396,017</u> | <u>2,243,108</u> | <u>2,243,108</u> | <u>152,909</u> |
| Balance end of year | <u>\$ 2,718,604</u> | <u>(4,246)</u> | <u>2,714,358</u> | <u>46,833</u> | <u>46,833</u> | <u>2,667,525</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2014

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

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

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

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

| For Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial | | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|-------------------------------|--------------------------------|--|--------------------------------------|------------------------------------|--------------------------|---------------------------|---|
| | | | Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | | | |
| 2010 | July 1, 2009 | \$ - | \$ 346,000 | \$ 346,000 | 0.0% | \$ 1,326,000 | 26.1% |
| 2011 | July 1, 2009 | - | 346,000 | 346,000 | 0.0% | 1,390,000 | 24.9% |
| 2012 | July 1, 2009 | - | 346,000 | 272,869 | 0.0% | 1,490,000 | 23.2% |
| 2013 | July 1, 2012 | - | 86,311 | 86,311 | 0.0% | 1,528,000 | 5.6% |
| 2014 | July 1, 2012 | - | 86,311 | 86,311 | 0.0% | 1,720,260 | 5.0% |

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

OTHER SUPPLEMENTARY INFORMATION

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

| | Special Revenue | | | | |
|---|-------------------------|---------------------|-----------------------------|-----------------|----------------|
| | Manage- ment Levy | Student Activity | Total Special Revenue | Debt Service | Total |
| ASSETS | | | | | |
| Cash and pooled investments | \$ 92,552 | 23,305 | 115,857 | 1,168 | 117,025 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 953 | - | 953 | 1,909 | 2,862 |
| Succeeding year | 65,000 | - | 65,000 | 146,198 | 211,198 |
| Accounts | - | 830 | 830 | - | 830 |
| TOTAL ASSETS | \$ 158,505 | 24,135 | 182,640 | 149,275 | 331,915 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | | | |
| Liabilities | \$ - | - | - | - | - |
| Deferred inflows of resources: | | | | | |
| Unavailable revenues: | | | | | |
| Succeeding year property tax | 65,000 | - | 65,000 | 146,198 | 211,198 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Debt service | - | - | - | 3,077 | 3,077 |
| Management levy purposes | 93,505 | - | 93,505 | - | 93,505 |
| Student activities | - | 24,135 | 24,135 | - | 24,135 |
| Total fund balances | 93,505 | 24,135 | 117,640 | 3,077 | 120,717 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 158,505 | 24,135 | 182,640 | 149,275 | 331,915 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014

| | Special Revenue | | | | |
|--|-------------------------|---------------------|-----------------------------|-----------------|----------------|
| | Manage- ment Levy | Student Activity | Total Special Revenue | Debt Service | Total |
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 75,159 | - | 75,159 | 150,763 | 225,922 |
| Other | 2,742 | 122,363 | 125,105 | - | 125,105 |
| State sources | 49 | - | 49 | 98 | 147 |
| Total revenues | <u>77,950</u> | <u>122,363</u> | <u>200,313</u> | <u>150,861</u> | <u>351,174</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 40,733 | - | 40,733 | - | 40,733 |
| Other | - | 130,346 | 130,346 | - | 130,346 |
| Support services: | | | | | |
| Instructional staff | 8,450 | - | 8,450 | - | 8,450 |
| Administration | - | - | - | 2,000 | 2,000 |
| Operation and maintenance of plant | 21,564 | - | 21,564 | - | 21,564 |
| Transportation | 15,663 | - | 15,663 | - | 15,663 |
| Long-term debt: | | | | | |
| Principal | - | - | - | 155,000 | 155,000 |
| Interest and fiscal charges | - | - | - | 114,220 | 114,220 |
| Total expenditures | <u>86,410</u> | <u>130,346</u> | <u>216,756</u> | <u>271,220</u> | <u>487,976</u> |
| Excess(Deficiency) of revenues over(under) expenditures | (8,460) | (7,983) | (16,443) | (120,359) | (136,802) |
| OTHER FINANCING SOURCES: | | | | | |
| Transfer in | - | 278 | 278 | 120,000 | 120,278 |
| Change in fund balances | (8,460) | (7,705) | (16,165) | (359) | (16,524) |
| Fund balances beginning of year | <u>101,965</u> | <u>31,840</u> | <u>133,805</u> | <u>3,436</u> | <u>137,241</u> |
| Fund balances end of year | <u>\$ 93,505</u> | <u>24,135</u> | <u>117,640</u> | <u>3,077</u> | <u>120,717</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2014

| | Capital Projects | | |
|---|---|--|----------------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| ASSETS | | | |
| Cash and pooled investments | \$ 537,048 | 297 | 537,345 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | - | 1,648 | 1,648 |
| Succeeding year | - | 137,966 | 137,966 |
| Income surtax | - | 112,349 | 112,349 |
| Due from other funds | - | 16,986 | 16,986 |
| Due from other governments | 66,480 | - | 66,480 |
| TOTAL ASSETS | \$ 603,528 | 269,246 | 872,774 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | | | |
| Liabilities | \$ - | - | - |
| Deferred inflows of resources: | | | |
| Unavailable revenues: | | | |
| Succeeding year property tax | - | 137,966 | 137,966 |
| Income surtax | - | 112,349 | 112,349 |
| Total deferred inflows of resources | - | 250,315 | 250,315 |
| Fund balances: | | | |
| Restricted for: | | | |
| School infrastructure | 603,528 | - | 603,528 |
| Physical plant and equipment levy | - | 18,931 | 18,931 |
| Total fund balances | 603,528 | 18,931 | 622,459 |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 603,528 | 269,246 | 872,774 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNTS
 YEAR ENDED JUNE 30, 2014

| | Capital Projects | | |
|--------------------------------------|---|--|-----------|
| | Statewide Sales, Services and Use Tax | Physical Plant and Equipment Levy | Total |
| REVENUES: | | | |
| Local sources: | | | |
| Local tax | \$ - | 255,978 | 255,978 |
| Other | 27 | 3 | 30 |
| State sources | 389,145 | 3,057 | 392,202 |
| Total revenues | 389,172 | 259,038 | 648,210 |
| EXPENDITURES: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 23,044 | - | 23,044 |
| Other | - | 4,110 | 4,110 |
| Support services: | | | |
| Administration | 1,066 | 38,226 | 39,292 |
| Operation and maintenance of plant | 32,363 | 17,800 | 50,163 |
| Transportation | - | 77,675 | 77,675 |
| Capital outlay | 92,540 | 77,577 | 170,117 |
| Total expenditures | 149,013 | 215,388 | 364,401 |
| Excess of revenues over expenditures | 240,159 | 43,650 | 283,809 |
| OTHER FINANCING USES: | | | |
| Transfer out | (120,000) | - | (120,000) |
| Change in fund balances | 120,159 | 43,650 | 163,809 |
| Fund balance beginning of year | 483,369 | (24,719) | 458,650 |
| Fund balance end of year | \$ 603,528 | 18,931 | 622,459 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Interfund and Intrafund Transfers | Balance End of Year |
|-------------------------------|---------------------------------|----------|-------------------|---|---------------------------|
| Band fundraiser | \$ 3,756 | 12 | - | - | 3,768 |
| Drill/dance team | 1,273 | 3,921 | 3,538 | - | 1,656 |
| Academic achievement | (1,280) | 1,400 | - | (120) | - |
| Annual | (1,728) | 4,501 | 4,055 | 1,282 | - |
| Art club | 823 | 853 | 1,504 | - | 172 |
| Athletics | 15,507 | 71,410 | 89,584 | 6,439 | 3,772 |
| Cheerleaders | 720 | 1,849 | 1,908 | - | 661 |
| Class of 2010 | 247 | - | - | (247) | - |
| Class of 2011 | 57 | - | - | (57) | - |
| Class of 2012 | (6) | 351 | - | (345) | - |
| Class of 2013 | (1,731) | 1,731 | - | - | - |
| Class of 2014 | 1,032 | - | 982 | - | 50 |
| Class of 2015 | - | 15,598 | 13,597 | - | 2,001 |
| Class of 2016 | 17 | 9 | - | - | 26 |
| FFA | 2,547 | 4,023 | 5,497 | - | 1,073 |
| FHA | 291 | - | - | (291) | - |
| Spanish club | 421 | 2,178 | 1,785 | - | 814 |
| High school student council | 1,558 | 4,434 | 3,191 | - | 2,801 |
| Knight club | 618 | - | - | (618) | - |
| Middle school athletics | (41) | 150 | - | (109) | - |
| Middle school student council | 2,774 | - | - | (2,774) | - |
| National honor society | 406 | - | 216 | - | 190 |
| Speech and drama | 2,325 | 1,469 | 3,384 | - | 410 |
| Thespians | 91 | - | - | - | 91 |
| Audio visual club | 60 | 1,880 | 1,016 | - | 924 |
| Interest on investments | 1,512 | 37 | - | - | 1,549 |
| SPLASH club | 253 | - | - | (253) | - |
| Little knights football | 1,087 | 1,681 | 89 | (2,679) | - |
| Basketball club | (749) | 699 | - | 50 | - |
| Leadership academy | - | 726 | - | - | 726 |
| Girls basketball club | - | 100 | - | - | 100 |
| Football | - | 3,351 | - | - | 3,351 |
| TOTAL | \$ 31,840 | 122,363 | 130,346 | 278 | 24,135 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2014

| | Pythias Scholarship | Linguist Scholarship | Longacre Scholarship | Wolfe Memorial | Total |
|-----------------------------|------------------------|-------------------------|-------------------------|-------------------|---------------|
| ASSETS | | | | | |
| Cash and pooled investments | \$ 19,691 | 16,210 | 370 | 354 | 36,625 |
| Interest receivable | 12 | 6 | - | - | 18 |
| TOTAL ASSETS | 19,703 | 16,216 | 370 | 354 | 36,643 |
| LIABILITIES | | | | | |
| | - | - | - | - | - |
| NET POSITION | | | | | |
| Restricted for scholarships | \$ 19,703 | 16,216 | 370 | 354 | 36,643 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2014

| | Pythias Scholarship | Linguist Scholarship | Longacre Scholarship | Wolfe Memorial | Total |
|--------------------------------|------------------------|-------------------------|-------------------------|-------------------|--------|
| Additions: | | | | | |
| Local sources: | | | | | |
| Interest income | \$ 37 | 55 | - | - | 92 |
| Deductions: | | | | | |
| Instruction: | | | | | |
| Regular: | | | | | |
| Scholarships awarded | 92 | - | - | - | 92 |
| Change in net position | (55) | 55 | - | - | - |
| Net position beginning of year | 19,758 | 16,161 | 370 | 354 | 36,643 |
| Net position end of year | \$ 19,703 | 16,216 | 370 | 354 | 36,643 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2014

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|--|---------------------------------|-----------|-----------|---------------------------|
| <u>EMPLOYEE VENDING:</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 2,338 | 2,567 | 2,668 | 2,237 |
| LIABILITIES | | | | |
| Due to other groups | \$ 2,338 | 2,567 | 2,668 | 2,237 |
| <u>BOOSTER CLUB:</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 7,219 | 4,101 | 7,988 | 3,332 |
| LIABILITIES | | | | |
| Due to other groups | \$ 7,219 | 4,101 | 7,988 | 3,332 |
| <u>TOTALS - ALL AGENCY FUNDS:</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 9,557 | 6,668 | 10,656 | 5,569 |
| LIABILITIES | | | | |
| Due to other groups | \$ 9,557 | 6,668 | 10,656 | 5,569 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| | Modified Accrual Basis | | | | | | | | | |
|------------------------------------|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Years Ended June 30, | | | | | | | | | |
| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Revenues: | | | | | | | | | | |
| Local sources: | | | | | | | | | | |
| Local tax | \$ 1,992,821 | 2,239,946 | 2,430,684 | 2,550,108 | 2,387,966 | 2,223,934 | 2,006,636 | 1,856,979 | 1,833,037 | 1,716,453 |
| Tuition | 441,648 | 269,946 | 304,958 | 232,964 | 219,851 | 188,907 | 188,041 | 164,042 | 122,109 | 116,356 |
| Other | 356,804 | 161,844 | 239,135 | 728,365 | 1,488,194 | 543,588 | 199,344 | 107,618 | 112,525 | 158,443 |
| State sources | 3,139,803 | 2,349,233 | 2,226,815 | 2,370,197 | 2,115,636 | 2,427,980 | 2,324,693 | 2,074,964 | 2,045,949 | 1,816,451 |
| Federal sources | 147,259 | 157,772 | 127,878 | 379,013 | 447,318 | 161,352 | 150,546 | 158,499 | 161,535 | 204,699 |
| Total | \$ 6,078,335 | 5,178,741 | 5,329,470 | 6,260,647 | 6,658,965 | 5,545,761 | 4,869,260 | 4,362,102 | 4,275,155 | 4,012,402 |
| Expenditures: | | | | | | | | | | |
| Instruction: | | | | | | | | | | |
| Regular | \$ 2,290,588 | 1,871,097 | 1,850,099 | 1,703,792 | 1,660,170 | 1,785,802 | 1,824,325 | 1,820,059 | 1,737,068 | 1,794,649 |
| Special | 643,561 | 555,693 | 471,945 | 406,650 | 476,852 | 517,949 | 477,563 | 410,197 | 475,025 | 462,817 |
| Other | 619,375 | 659,565 | 620,621 | 662,869 | 515,936 | 528,882 | 444,284 | 446,314 | 413,821 | 333,128 |
| Support services: | | | | | | | | | | |
| Student | 67,987 | 86,149 | 72,139 | 70,752 | 71,116 | 47,179 | 39,456 | 31,771 | 40,270 | 52,710 |
| Instructional staff | 179,499 | 165,104 | 133,034 | 84,382 | 118,237 | 95,906 | 57,898 | 73,725 | 66,614 | 39,275 |
| Administration | 649,202 | 697,335 | 602,138 | 567,010 | 543,797 | 586,257 | 564,204 | 561,353 | 507,897 | 431,773 |
| Operation and maintenance of plant | 369,163 | 349,534 | 265,192 | 255,639 | 295,224 | 323,812 | 301,516 | 307,586 | 339,895 | 430,292 |
| Transportation | 323,809 | 283,816 | 416,048 | 272,190 | 296,985 | 245,711 | 230,001 | 301,912 | 237,813 | 282,241 |
| Non-instructional programs | 87 | - | - | - | - | 4,370 | 1,788 | 9,322 | - | 2,449 |
| Other expenditures: | | | | | | | | | | |
| Capital outlays | 170,117 | 347,682 | 240,558 | 1,251,812 | 2,564,572 | 1,038,386 | 39,002 | 109,520 | 164,994 | 125,328 |
| Long-term debt: | | | | | | | | | | |
| Principal | 155,000 | 150,000 | 1,420,000 | 190,000 | 180,000 | 160,000 | 135,000 | 135,000 | 125,000 | 120,000 |
| Interest and other charges | 114,220 | 117,100 | 189,015 | 214,996 | 178,633 | 162,719 | 97,865 | 103,890 | 109,220 | 115,510 |
| AEA flow-through | 177,422 | 167,133 | 166,781 | 186,662 | 187,488 | 168,022 | 153,365 | 139,070 | 135,941 | 124,327 |
| Total | \$ 5,760,030 | 5,450,208 | 6,447,570 | 5,866,754 | 7,089,010 | 5,664,995 | 4,366,267 | 4,449,719 | 4,353,558 | 4,314,499 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

To the Board of Education of the Fremont-Mills Community School District:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fremont-Mills Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fremont-Mills Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

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

Fremont-Mills Community School District's Responses to Findings

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

Purpose of this Report

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

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



NOLTE, CORMAN & JOHNSON, P.C.

March 24, 2015
Newton, Iowa

FREMONT-MILLS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash, reconciling.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Wire transfers - processing and approving.
- 6) Payroll - recordkeeping, preparation, posting and distribution.
- 7) Financial reporting - preparing, reconciling and approving.
- 8) Computer systems - performing all general accounting functions and controlling all data input and output.
- 9) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

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

Conclusion - Response accepted.

I-B-14 Purchase Orders - We noted during our audit that the District does not use the purchase order system for purchases on the District's credit card. We also noted instances of transactions processed without purchase orders.

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

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

Response - The District had implemented a new policy that includes the use of purchase orders being generated through the Software Unlimited program.

Conclusion - Response accepted.

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

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

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

Response - The District has reviewed their current policy, and made changes to include the use of a balance for office personnel, ticket takers, and administration to better account for cash. In addition, the district has purchased pre-numbered tickets to incorporate into the policy.

Conclusion - Response accepted.

I-D-14 Student Activity Fund-Fundraisers - We noted during our audit that the District maintains fundraisers in the Student Activity Fund, however they are not approved by the Board. We recommend that all fundraisers be approved by Board. We also noted that the fundraisers do not always have a stated purpose.

Recommendation - Districts should have policies and/or procedures in place to address fund-raising activity including:

- a. The Board or its designee should approve all District-sponsored fundraising activity.
- b. The Board may also adopt a policy to require Board approval of all fundraising activity including fundraising activities of affiliated organizations such as Booster Clubs and the PTO.
- c. Boards should establish procedures for fund-raising activity for District sponsored fund-raisers as well as fund-raisers sponsored by outside groups and organizations to help ensure consistency and accountability over fund-raising activities.
- d. The Board should determine the extent, if any, of administrative support to be provided for District-sponsored and affiliated organization fundraising activity including the cost and/or expense associated with staff time used in collecting payments; preparing, printing and/or assembling mailings; postage; etc.
- e. Fund-raising activity should be clearly designated as District-sponsored and/or sponsored by an outside group or affiliated organization to clearly establish responsibility and accountability.
- f. If District-sponsored, the District should account for the fund-raising activity.

Response - The District has updated their fundraiser policy which includes board approval.

Conclusion - Response accepted.

I-E-14 Agency Fund - During our audit we noted the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the District serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or a parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District places certain assets into the custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund".

Currently, the District has two accounts in the Agency Fund, the Athletic Booster Club account and the Employee Vending account. The District maintains the accounting function and custody of Athletic Booster Club assets although the Athletic Booster Club is a separate 501(c)(3) organization. Therefore, it appears that the Athletic Booster Club is being properly accounted for as an Agency Fund account.

However, the Employee Vending account appears to not be an Agency Fund account. Revenues and expenses recorded in this account appear to be for pop for the teachers' lounge. Since the District purchases the pop and maintains custody of the revenues from the lounge pop machines, it would appear that this account would not meet the definition of an Agency Fund account as described above.

Recommendation - Monies accounted for in the Agency Fund should be the property of an entity that has its own federal identification number and would be considered a legally separate entity. Since moneys remaining in the Employee Vending account appear to be the custody of the District, the remaining moneys in the Employee Vending account should be accounted for in the General Fund. If the District wishes to continue to monitor the activity in this account, an account could be set up as an assigned fund balance account in the General Fund.

Response - The employee vending machine account will be reclassified from an agency fund to the student activity fund under the Yearbook's fund balance pending board approval to use the vending machine moneys as a fundraiser to offset the costs of compiling a yearbook each school year.

Conclusion - Response accepted.

- I-F-14 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The District has implemented the use of time sheets for all non-certified coaches.

Conclusion - Response accepted.

- I-G-14 Negative Lunch Account Balances - It was noted during the audit that the Nutrition Fund is carrying several significant negative student lunch account balances on the books.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. The District should try various collection techniques to collect the balances. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - The District reviewed the hot lunch policy, and updated the policy to assist in reducing the amount of outstanding lunch account balances.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

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

- II-B-14 Questionable Disbursements - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity moneys are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District informed employees that all clothing purchased by the district is to be returned upon leaving the district, or can be purchased by the employee at that time.

Conclusion - Response accepted.

Gift Card Purchases: We noted a disbursement for gift cards for iTunes and Amazon. Giving gift cards to students does not appear to meet public purpose as defined in the Attorney General’s opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District spoke with sponsors and staff as to the appropriate way to purchase music and apps for educational and school sponsored events.

Conclusion - Response accepted.

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

Detailed Receipts - We noted that there were instances of reimbursements made to employees which lacked a detailed receipt. The District has Board Policy 401.10 that addresses the use of District issued credit cards by employees for necessary expenses incurred while on District business. If an employee fails to submit a detailed receipt in addition to the credit card receipt indicating the date, purpose and nature of the expense for each item, that expense would become the employee’s expense that would have to be reimbursed to the District within ten days following the use of the District credit card.

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

Response - The District reviewed the credit card policy and updated the policy to include a more efficient way to account for credit card purchases.

Conclusion - Response accepted.

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

| Name, Title and Business Connection | Transaction Description | Amount |
|--|-------------------------|--------|
| Susan Shepherd, Board Secretary Spouse owns Shepherd Construction | Landscaping | \$ 440 |
| Keith Barber, Board Member Sales Manager at A&M Green Power | Repairs | 53 |

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

In accordance with Chapter 279.7A of the Code of Iowa, the above transactions with the Board Member do not appear to represent a conflict of interest.

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

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

Also, we noted during our audit that the District did not name each of the official official depositories for fiscal year 2014 in the board minutes. Section 12C.2 of the Code of Iowa states the board minutes "shall distinctly name each depository approved, and specify the maximum amount that may be kept on deposit in each depository."

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

The District should name each depository in the board minutes to be in compliance with Section 12C.2 of the Code of Iowa.

Response - The District has noted that depositories should be named yearly and the minutes should be published in a more timely manner.

Conclusion - Response accepted.

II-G-14 Certified Enrollment - No variances in the basic enrollment data certified in the Iowa Department of Education were noted.

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

II-I-14 Deposits and Investments - The District's investment policy 704.3 appears to be in compliance with Chapter 12B and 12C of the Code of Iowa. However, during our audit, we noted the District received dividends from the ownership of Principal stock. The District's ownership of Principal stock does not appear to be in compliance with the District policy 704.3 and Chapters 12B and 12C of the Code of Iowa.

Recommendation - The District should review Board policy 704.3 and Chapters 12B and 12C of the Code of Iowa. The Principal stock should be sold and the District should invest in an investment that is in compliance with the District policy and Chapter 12B and 12C of the Code of Iowa.

Response - The District has sold the stock and deposited the funds into the general fund.

Conclusion - Response accepted.

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

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

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

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

| | | | |
|------------------------------------|----|---------|----------------|
| Beginning balance | | \$ | 483,369 |
| Revenues: | | | |
| Sales tax revenues | \$ | 389,145 | |
| Other local revenue | | 27 | 389,172 |
| | | | <u>872,541</u> |
| Expenditures/transfers out: | | | |
| School infrastructure construction | \$ | 92,540 | |
| Equipment | | 32,403 | |
| Other | | 24,070 | |
| Transfers to other funds: | | | |
| Debt service fund | | 120,000 | 269,013 |
| | | | <u>269,013</u> |
| Ending balance | | \$ | <u>603,528</u> |

For the year ended June 30, 2014, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

| | <u>Rate of Levy Reduction Per \$1,000 of Taxable Valuation</u> | <u>Property Tax Dollars Reduced</u> |
|-------------------|--|---|
| Debt service levy | \$ 0.82813 | \$ 120,000 |

- II-M-14 District and Regional Rents - We noted during our audit that the District receives money for the use of facilities when hosting district and regional events. The District currently receipts district and regional rents into the Student Activity Fund.

Recommendation - Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - The District understands that money for using school facilities is to be classified into the general fund.

Conclusion - Response accepted.

- II-N-14 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District understands that the Athletic Director should not be signing activity fund officiating contracts. The Board President has started signing these.

Conclusion - Response accepted.

II-O-14 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format. The Code requires the Board Secretary to retain checks to include an image of both the front and back of each cancelled check. We noted the District does not obtain the image of the back of each cancelled check.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District has requested both Glenwood State Bank and Tri Valley Bank to be printing both front and back of checks.

Conclusion - Response accepted.

II-P-14 Termination Benefits - We noted during our audit that termination benefits paid to two early retirees that were over the age of 65 at the time of retirement during fiscal year 2013 were paid from the Management Levy Fund in fiscal year 2014. In accordance with Chapter 298.4 of the Code of Iowa, termination benefits are allowable from the Management Levy Fund if the retiree is between the ages of 55 and 65 at the time of retirement.

Recommendation - The District needs to have the District's Board of Directors approve a corrective transfer of \$13,289.39 from the General Fund to the Management Levy Fund for termination benefits paid from the incorrect fund.

Response - The District noted that early retirement may only be paid from the management fund if the employee is between 55 and 65. The District will make the corrective transfer pending board approval.

Conclusion - Response accepted.

II-Q-14 Activity Fund Transfer - We noted a transfer from the General Fund to the Student Activity Fund in the amount of \$277.79 to bring the negative Annual Account to a zero balance without invoices to support the transfer. The District has no legal authority to transfer from the General Fund to the Student Activity Fund to bring negative accounts to a zero balance.

We also noted that the Activity Fund paid a bill from Gruhn Law Firm in the amount of \$122.50. This would not appear to be an appropriate expense of the Activity Fund, as it was more instructional in nature. This bill would have been more appropriate to be paid from the General Fund.

Recommendation - The District needs to have the District's Board of Directors approve a corrective transfer of \$155.29 from the Student Activity Fund to the General Fund for the net difference in unallowable expenditures/transfers.

Response - The District will make the correction pending board approval.

Conclusion - Response accepted.

II-R-14 Interfund Loan - We noted during our audit that the District paid \$2,770.80 from the Capital Projects: Physical Plant and Equipment Levy Fund for repairs/maintenance to Nutrition Fund equipment. We also noted that the District paid \$14,215.36 from the Capital Projects: Physical Plant and Equipment Levy Fund(PPEL) for routine maintenance to District facilities.

The following from Iowa Administrative Code 281 Chapter 98.64(3) specifically disallows facility/equipment maintenance from PPEL:

Inappropriate expenditures in the PPEL fund include the following:

- a. student construction
- b. salaries and benefits
- c. travel
- d. supplies
- e. facility, vehicle or equipment maintenance
- f. printing costs or media services
- g. Any other purpose not expressly authorized in the Iowa Code.

Due to materiality of the amounts mentioned above, adjustments were made to interfund loan balances shown on the financial statements of this report between the General Fund and the Capital Projects: Physical Plant and Equipment Levy Fund and Nutrition Fund.

Recommendation - According to a Declaratory Order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year-end financial statements must be approved by the District's Board of Directors and be repaid to their respective funds on or before October 1st of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must seek outside funding to repay the interfund loans according to Iowa Code Chapter 74.

In addition, the District should review Iowa Administrative Code 281 Chapter 98.64(3) for allowability of expenditures from the PPEL Fund.

Response - The District has noted that repairs for routine maintenance are not allowed under Iowa Administrative Code 281 Chapter 98.64(3). The District has discontinued this practice.

Conclusion - Response accepted.

- II-S-14 Booster Club - We noted during our audit that the District allowed the Athletic Booster Club, which is a separate 501(c)(3) organization, to use the District's Sam's Club credit card to gain tax exempt status for purchases.

Recommendation - The District should not allow the Athletic Booster Club or any other outside organization to use District credit cards to gain tax exempt status on purchases. A better practice would be to have the District and the Athletic Booster Club agree to purchases to be made and have the District make the purchases through the District's purchase order process. After the purchases have been made, the Athletic Booster Club can reimburse the District for the amount of the purchases.

Response - The District has spoken with the Booster Club representatives and discontinued Booster Club use of school credit cards. The Booster Club will reimburse the district for any purchases made for the Booster Club.

Conclusion - Response accepted.

- II-T-14 Financial Condition - At June 30, 2014, the Enterprise, School Nutrition fund had an unrestricted net position deficit balance of \$7,942 and a deficit fund balance of \$4,246.

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

Response - The District has created a policy to minimize the amount of negative lunch account balances. In addition, the lunch and breakfast prices have been raised.

Conclusion - Response accepted.

II-U-14 Supporting Documentation - We noted instances of checks being written from payment requests and lacking an invoice or statement that could subsequently be used as supporting documentation.

Recommendation - Chapter 291.6 of the Code of Iowa requires the Board Secretary to preserve and file all copies of pertinent paperwork related to the business of the District. The District should review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or support documentation other than the invoice.

Response - We will require that all pay requests include receipts for all transactions.

Conclusion - Response accepted.