

MADRID COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Madrid Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2013 Election)**

Emily Schieltz	President	2015
Linda Ahrens	Vice-President	2013
Katie Baumgarn	Board Member	2013
Marvin Ostrander	Board Member	2015
Terry Ostendorf	Board Member	2015

(After September 2013 Election)

Terry Ostendorf	President	2015
Marvin Ostrander	Vice-President	2015
Ken Williams	Board Member	2017
Ryan Santi	Board Member	2017
Emily Schieltz	Board Member	2015
	(resigned October 14, 2013)	
Doug Greufe	Board Member	2015
	(appointed October 31, 2013)	

School Officials

Brian Horn	Superintendent	2014
Sandy Johnson	Business Manager	2014
Drew Bracken	Attorney	2014



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Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Madrid 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 Madrid Community School District, Madrid, 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 Madrid Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of Funding Progress for the Retiree Health Plan and the Schedule of Funding Progress for the Supplemental Pension Plan on pages 7 through 16 and 42 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madrid Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2015, on our consideration of Madrid 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 Madrid Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2015
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madrid 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 \$5,971,937 in fiscal 2013 to \$6,431,940 in fiscal 2014, while General Fund expenditures increased from \$5,656,786 in fiscal 2013 to \$6,252,856 in fiscal 2014. This resulted in an increase of the District's General Fund balance from \$1,166,949 in fiscal 2013 to a balance of \$1,346,033 in fiscal 2014, a 15.35% increase over the prior year.
- The increase in General Fund revenues was attributable to the increase in state and local source revenues. The increase in expenditures was primarily due to the increase in instruction and support service expenditures during the year.

USING THIS ANNUAL REPORT

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

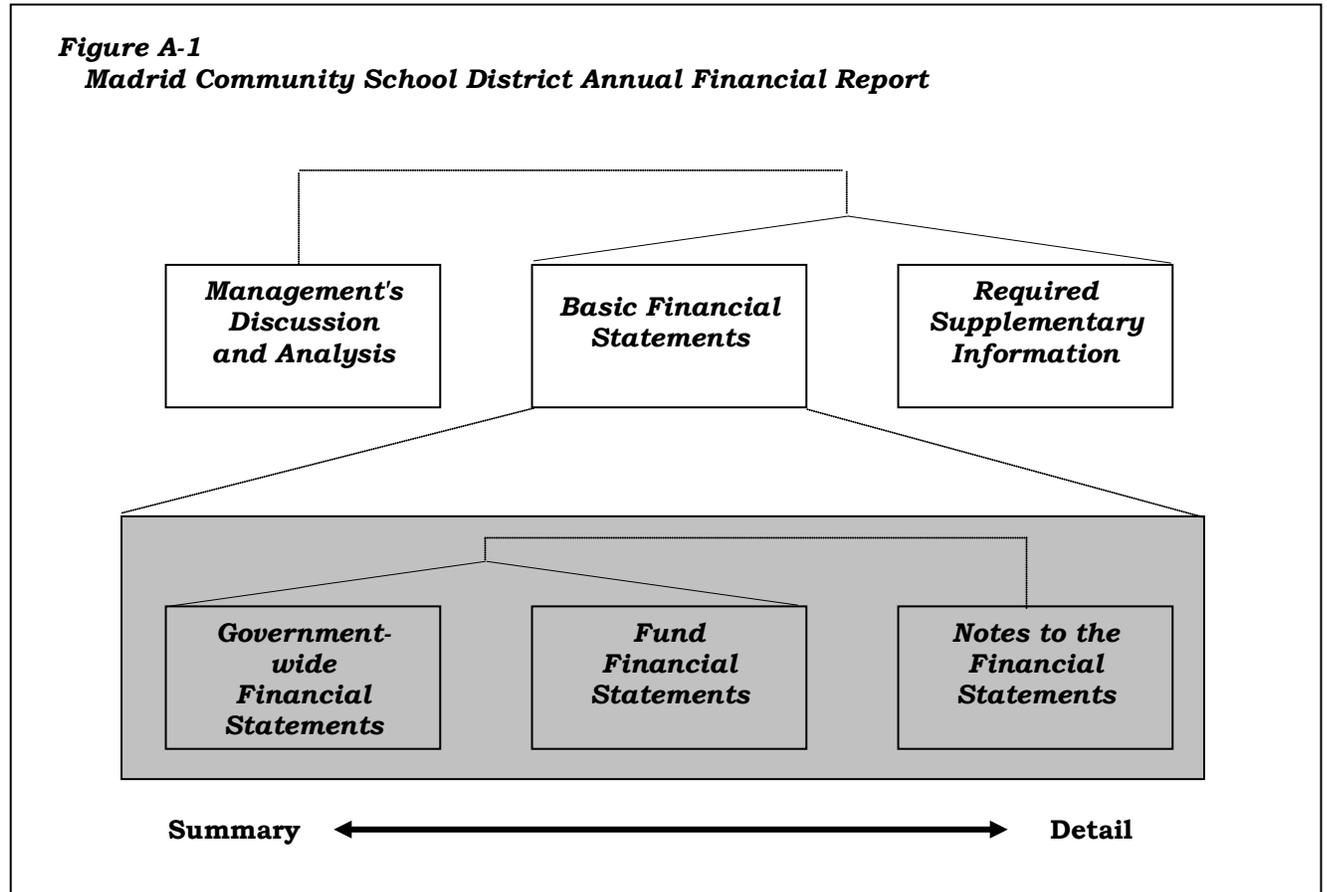


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, 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's Enterprise Fund is the School Nutrition Fund.

The required financial statements for the proprietary funds include a Statement of Net Position, a 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 the Private-Purpose Trust, which accounts for outside donations for scholarships for individual students.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Figure A-3 Condensed Statement of Net Position						
	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	\$ 5,788,605	5,937,715	(158,349)	42,876	5,630,256	5,980,591	-5.86%
Capital assets	6,559,074	5,255,456	8,944	7,293	6,568,018	5,262,749	24.80%
Total assets	12,347,679	11,193,171	(149,405)	50,169	12,198,274	11,243,340	8.49%
Long-term obligations	3,347,840	3,241,633	55,551	35,044	3,403,391	3,276,677	3.87%
Other liabilities	816,282	528,890	5,937	156,667	822,219	685,557	19.93%
Total liabilities	4,164,122	3,770,523	61,488	191,711	4,225,610	3,962,234	6.65%
Deferred inflows of resources	1,941,789	1,955,410	-	-	1,941,789	1,955,410	-0.70%
Net position:							
Invested in capital assets, net of related debt	4,217,074	2,690,456	8,944	7,293	4,226,018	2,697,749	56.65%
Restricted	1,600,973	2,166,931	-	-	1,600,973	2,166,931	-26.12%
Unrestricted	423,721	609,851	(219,837)	(148,835)	203,884	461,016	-55.78%
Total net position	\$ 6,241,768	5,467,238	(210,893)	(141,542)	6,030,875	5,325,696	13.24%

The District's combined net position increased by 13.24%, or \$705,179 over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$565,958, or 26.12% over the prior year. The decrease in restricted net position was primarily due to the increase in the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Unrestricted net position - is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$257,132, or 55.78%. The decrease in unrestricted net position is primarily due to the increase in the District's net OPEB liability during the 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 District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues and transfers:							
Program revenues:							
Charges for service	\$ 542,820	489,671	183,900	177,944	726,720	667,615	8.85%
Operating grants, contributions and restricted interest	597,102	409,580	144,096	128,327	741,198	537,907	37.79%
Capital grants, contributions and restricted interest	15,000	-	-	-	15,000	-	100.00%
General revenues:							
Property tax	1,961,522	1,804,527	-	-	1,961,522	1,804,527	8.70%
Statewide sales, services and use tax	591,753	556,921	-	-	591,753	556,921	6.25%
Income surtax	250,541	229,952	-	-	250,541	229,952	8.95%
Unrestricted state grants	3,762,392	3,688,324	-	-	3,762,392	3,688,324	2.01%
Unrestricted investment earnings	882	802	4	7	886	809	9.52%
Other	13,703	16,333	7,411	7,312	21,114	23,645	-10.70%
Total revenues and transfers	<u>7,735,715</u>	<u>7,196,110</u>	<u>335,411</u>	<u>313,590</u>	<u>8,071,126</u>	<u>7,509,700</u>	<u>7.48%</u>
Program expenses:							
Instructional	4,769,104	4,622,435	-	-	4,769,104	4,622,435	3.17%
Support services	1,645,327	1,768,480	-	-	1,645,327	1,768,480	-6.96%
Non-instructional programs	-	-	409,348	529,179	409,348	529,179	-22.64%
Other expenses	542,168	433,664	-	-	542,168	433,664	25.02%
Total expenses	<u>6,956,599</u>	<u>6,824,579</u>	<u>409,348</u>	<u>529,179</u>	<u>7,365,947</u>	<u>7,353,758</u>	<u>0.17%</u>
Excess(Deficiency) of revenues over(under) expenditures	779,116	371,531	(73,937)	(215,589)	705,179	155,942	352.21%
Transfers	(4,586)	(2,864)	4,586	2,864	-	-	0.00%
Change in net position	774,530	368,667	(69,351)	(212,725)	705,179	155,942	352.21%
Net position beginning of year	<u>5,467,238</u>	<u>5,098,571</u>	<u>(141,542)</u>	<u>71,183</u>	<u>5,325,696</u>	<u>5,169,754</u>	<u>3.02%</u>
Net position end of year	<u>\$ 6,241,768</u>	<u>5,467,238</u>	<u>(210,893)</u>	<u>(141,542)</u>	<u>6,030,875</u>	<u>5,325,696</u>	<u>13.24%</u>

In fiscal 2014, property tax and unrestricted state grants accounted for 73.99% of the revenue from governmental activities while charges for service and operating grants, contributions and restricted interest account for 97.79% of the revenue from business type activities.

The District's total revenues were approximately \$8.07 million, of which approximately \$7.74 million was for governmental activities and approximately \$0.33 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.48% increase in revenues and a 0.17% increase in expenses. The increase in revenues is primarily due to an increase in operating grants, contributions and restricted interest. The increase in expenses is primarily due to the increase in instructional expenditures.

Governmental Activities

Revenues for governmental activities were \$7,735,715 and expenses were \$6,956,599 for the year ended June 30, 2014.

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

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 4,769,104	4,622,435	3.17%	3,885,855	3,962,136	-1.93%
Support services	1,645,327	1,768,480	-6.96%	1,628,114	1,766,460	-7.83%
Other expenses	542,168	433,664	25.02%	287,708	196,732	46.24%
Totals	<u>\$ 6,956,599</u>	<u>6,824,579</u>	<u>1.93%</u>	<u>5,801,677</u>	<u>5,925,328</u>	<u>-2.09%</u>

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$542,820.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$597,102.
- The net cost of governmental activities was financed with \$1,961,522 in property tax, \$591,753 in statewide sales, services and use tax, \$250,541 in income surtax, \$3,762,392 in unrestricted state grants, \$15,000 in capital grants, contributions and restricted interest, \$882 in interest income, \$13,703 in other general revenue and capital contributions to the Nutrition Fund shown as transfers of \$4,586.

Business Type Activities

Revenues of the District's business type activities were \$335,411 and expenses were \$409,348. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, investment income, capital contributions and other general revenues.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Madrid 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 \$2,842,361, below last year's ending fund balances of a \$3,260,625. The primary reason for the decrease in combined fund balances in fiscal 2014 is due to the decrease in the Capital Projects accounts balance.

Governmental Fund Highlights

- The District's General Fund balance increased from \$1,166,949 at June 30, 2013 to \$1,346,033 at June 30, 2014. The fluctuation in the District's General Fund financial position is the product of many factors. An increase in state funding can be attributed to the increase in fund balance during the year.

- The Capital Projects accounts balances decreased from \$1,774,801 in fiscal 2013 to \$1,131,475 in fiscal 2014. This is primarily due to the District expending bond proceeds received in fiscal 2013 on construction during the year.

Proprietary Fund Highlights

The Proprietary Fund net position decreased from a deficit \$141,542 at June 30, 2013 to a deficit \$210,893 at June 30, 2014, representing a decrease of 49.00%. Expenses did decrease compared to the prior year and the revenue did increase. The Nutrition Fund did however have a decrease in net position of \$69,351.

BUDGETARY HIGHLIGHTS

The District's revenues were \$274,119 less than budgeted revenues, a variance of 3.29%. The most significant dollar variance resulted from the District receiving more in state 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 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 \$6,568,018 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 24.80% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$244,444.

The original cost of the District's capital assets was \$11,743,453. Governmental funds account for \$11,626,509 with the remainder of \$116,944 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$12,162 reported at June 30, 2014, compared to \$1,011,626 at June 30, 2013. The decrease is attributable to completion and capitalization of a remodel and roof replacement at the high school.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	2013-14
Land	\$ 112,126	112,126	-	-	112,126	112,126	0.00%
Construction in progress	12,162	1,011,626	-	-	12,162	1,011,626	-98.80%
Buildings	5,799,141	3,679,682	-	-	5,799,141	3,679,682	57.60%
Land improvements	366,260	223,025	-	-	366,260	223,025	64.22%
Machinery and equipment	269,385	228,997	8,944	7,293	278,329	236,290	17.79%
Total	\$ 6,559,074	5,255,456	8,944	7,293	6,568,018	5,262,749	24.80%

Long-Term Debt

At June 30, 2014, the District had \$3,403,391 in long-term debt outstanding. This represents an increase of 3.87% from the prior 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 outstanding general obligation bonds payable of \$690,000 at June 30, 2014.

The District had outstanding revenue bonds payable of \$1,652,000 at June 30, 2014.

The District had outstanding compensated absences of \$7,813 at June 30, 2014.

The District had a net OPEB liability of \$952,849 at June 30, 2014; of this amount \$897,298 is attributable to governmental activities and \$55,551 to business type activities.

The District had an outstanding pension liability of \$100,729 at June 30, 2014.

	Governmental Activities		Business Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
General obligation bonds	\$ 690,000	815,000	-	-	690,000	815,000	-15.34%
Revenue bonds	1,652,000	1,750,000	-	-	1,652,000	1,750,000	-5.60%
Compensated absences	7,813	9,702	-	-	7,813	9,702	-19.47%
Net OPEB liability	897,298	566,055	55,551	35,044	952,849	601,099	58.52%
Net pension liability	100,729	100,876	-	-	100,729	100,876	100.00%
Totals	\$ 3,347,840	3,241,633	55,551	35,044	3,403,391	3,276,677	3.87%

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:

- The District has purchased 6 Chrome Book labs for classroom use and student checkout.
- The District passed a bond referendum with 72% approval to replace the high school parking lot and pave the north and south elementary parking lots along with purchasing additional elementary playground equipment.
- The high school building added 2 new science classrooms and remodeled the 2 old classrooms into 3 new classrooms and replaced the entire high school building roof with sales tax revenue dollars.
- There is continued housing growth in the district, which has brought increased enrollment for the District.

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 Sandra R. Johnson, Business Manager, Madrid Community School District, 201 North Main St., Madrid, Iowa, 50156.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 3,023,979	4,653	3,028,632
Receivables:			
Property tax:			
Delinquent	25,450	-	25,450
Succeeding year	1,941,789	-	1,941,789
Income surtax	224,555	-	224,555
Due from other funds	183,422	(183,422)	-
Due from other governments	389,410	-	389,410
Inventories	-	20,420	20,420
Capital assets, net of accumulated depreciation	6,559,074	8,944	6,568,018
TOTAL ASSETS	12,347,679	(149,405)	12,198,274
LIABILITIES			
Accounts payable	139,274	-	139,274
Salaries and benefits payable	640,626	-	640,626
Accrued interest payable	36,382	-	36,382
Unearned revenue	-	5,937	5,937
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	130,000	-	130,000
Revenue bonds payable	85,000	-	85,000
Compensated absences payable	7,813	-	7,813
Portion due after one year:			
General obligation bonds payable	560,000	-	560,000
Revenue bonds payable	1,567,000	-	1,567,000
Net OPEB liability payable	897,298	55,551	952,849
Net pension liability payable	100,729	-	100,729
TOTAL LIABILITIES	4,164,122	61,488	4,225,610
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue	1,941,789	-	1,941,789
NET POSITION			
Net investment in capital assets	4,217,074	8,944	4,226,018
Restricted for:			
Categorical funding	141,027	-	141,027
Debt service	69,312	-	69,312
Management levy purposes	216,800	-	216,800
Student activities	42,359	-	42,359
School infrastructure	902,633	-	902,633
Physical plant and equipment	228,842	-	228,842
Unrestricted	423,721	(219,837)	203,884
TOTAL NET POSITION	\$ 6,241,768	(210,893)	6,030,875

SEE NOTES TO FINANCIAL STATEMENTS

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 3,257,689	384,991	146,951	-	(2,725,747)	-	(2,725,747)
Special	789,392	-	30,490	-	(758,902)	-	(758,902)
Other	722,023	157,829	162,988	-	(401,206)	-	(401,206)
	<u>4,769,104</u>	<u>542,820</u>	<u>340,429</u>	<u>-</u>	<u>(3,885,855)</u>	<u>-</u>	<u>(3,885,855)</u>
Support services:							
Student	195,202	-	-	-	(195,202)	-	(195,202)
Instructional staff	172,295	-	-	-	(172,295)	-	(172,295)
Administration	698,473	-	-	-	(698,473)	-	(698,473)
Operation and maintenance of plant	318,362	-	-	15,000	(303,362)	-	(303,362)
Transportation	260,995	-	2,213	-	(258,782)	-	(258,782)
	<u>1,645,327</u>	<u>-</u>	<u>2,213</u>	<u>15,000</u>	<u>(1,628,114)</u>	<u>-</u>	<u>(1,628,114)</u>
Long-term debt interest	93,696	-	-	-	(93,696)	-	(93,696)
Other expenditures:							
AEA flowthrough	254,460	-	254,460	-	-	-	-
Depreciation(unallocated)*	194,012	-	-	-	(194,012)	-	(194,012)
	<u>448,472</u>	<u>-</u>	<u>254,460</u>	<u>-</u>	<u>(194,012)</u>	<u>-</u>	<u>(194,012)</u>
Total governmental activities	<u>6,956,599</u>	<u>542,820</u>	<u>597,102</u>	<u>15,000</u>	<u>(5,801,677)</u>	<u>-</u>	<u>(5,801,677)</u>
Business type activities:							
Non-instructional programs:							
Nutrition services	409,348	183,900	144,096	-	-	(81,352)	(81,352)
Total business type activities	<u>409,348</u>	<u>183,900</u>	<u>144,096</u>	<u>-</u>	<u>-</u>	<u>(81,352)</u>	<u>(81,352)</u>
Total	<u>\$ 7,365,947</u>	<u>726,720</u>	<u>741,198</u>	<u>15,000</u>	<u>(5,801,677)</u>	<u>(81,352)</u>	<u>(5,883,029)</u>
General Revenues and Transfers:							
General revenues:							
Local tax for:							
General purposes				\$ 1,651,373	-		1,651,373
Debt service				155,482	-		155,482
Capital outlay				154,667	-		154,667
Statewide sales, services and use tax				591,753	-		591,753
Income surtax				250,541	-		250,541
Unrestricted state grants				3,762,392	-		3,762,392
Unrestricted investment earnings				882		4	886
Other				13,703		7,411	21,114
Transfers				(4,586)		4,586	-
Total general revenues and transfers				<u>6,576,207</u>	<u>12,001</u>		<u>6,588,208</u>
Change in net position				774,530	(69,351)		705,179
Net position beginning of year				<u>5,467,238</u>	<u>(141,542)</u>		<u>5,325,696</u>
Net position end of year				<u>\$ 6,241,768</u>	<u>(210,893)</u>		<u>6,030,875</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Capital Projects	Nonmajor	Total
ASSETS				
Cash and pooled investments	\$ 1,781,062	883,172	359,745	3,023,979
Receivables:				
Property tax:				
Delinquent	18,449	1,997	5,004	25,450
Succeeding year	1,346,929	156,355	438,505	1,941,789
Income surtax	224,555	-	-	224,555
Due from other funds	183,422	-	-	183,422
Due from other governments	143,000	246,306	104	389,410
TOTAL ASSETS	\$ 3,697,417	1,287,830	803,358	5,788,605
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 139,274	-	-	139,274
Salaries and benefits payable	640,626	-	-	640,626
Total liabilities	779,900	-	-	779,900
Deferred inflows of resources:				
Unavailable revenues:				
Succeeding year property tax	1,346,929	156,355	438,505	1,941,789
Income surtax	224,555	-	-	224,555
Total deferred inflows of resources	1,571,484	156,355	438,505	2,166,344
Fund balances:				
Restricted for:				
Categorical funding	141,027	-	-	141,027
Debt service	-	-	105,694	105,694
Management levy purposes	-	-	216,800	216,800
Student activities	-	-	42,359	42,359
School infrastructure	-	902,633	-	902,633
Physical plant and equipment	-	228,842	-	228,842
Unassigned	1,205,006	-	-	1,205,006
Total fund balances	1,346,033	1,131,475	364,853	2,842,361
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 3,697,417	1,287,830	803,358	5,788,605

SEE NOTES TO FINANCIAL STATEMENTS

MADRID 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)	\$	2,842,361
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		6,559,074
Income surtax is not yet available to pay current year expenditures and , therefore, is recognized as deferred inflows of resources in the governmental funds		224,555
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.		(36,382)
Long-term liabilities, including general obligation bonds payable, revenue bonds payable, compensated absences payable, other postemployment benefits payable and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(3,347,840)</u>
Net position of governmental activities(page 18)	\$	<u>6,241,768</u>

SEE NOTES TO FINANCIAL STATEMENTS

MADRID 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	\$ 1,661,195	154,667	386,203	2,202,065
Tuition	358,782	-	-	358,782
Other	53,406	15,315	145,839	214,560
State sources	4,215,618	591,753	-	4,807,371
Federal sources	142,939	-	-	142,939
Total revenues	6,431,940	761,735	532,042	7,725,717
Expenditures:				
Current:				
Instruction:				
Regular	2,983,059	-	125,142	3,108,201
Special	752,493	-	-	752,493
Other	553,205	-	146,095	699,300
	4,288,757	-	271,237	4,559,994
Support services:				
Student	184,157	-	-	184,157
Instructional staff	165,260	-	-	165,260
Administration	654,938	-	-	654,938
Operation and maintenance of plant	505,019	61,750	36,871	603,640
Transportation	200,265	26,280	24,102	250,647
	1,709,639	88,030	60,973	1,858,642
Capital outlay	-	1,168,804	-	1,168,804
Long-term debt:				
Principal	-	-	223,000	223,000
Interest and fiscal charges	-	-	79,081	79,081
	-	-	302,081	302,081
Other expenditures:				
AEA flowthrough	254,460	-	-	254,460
Total expenditures	6,252,856	1,256,834	634,291	8,143,981
Excess(Deficiency) of revenues over(under) expenditures	179,084	(495,099)	(102,249)	(418,264)
Other financing sources(uses):				
Transfer in	-	-	148,227	148,227
Transfer out	-	(148,227)	-	(148,227)
Total other financing sources(uses)	-	(148,227)	148,227	-
Change in fund balances	179,084	(643,326)	45,978	(418,264)
Fund balances beginning of year	1,166,949	1,774,801	318,875	3,260,625
Fund balances end of year	\$ 1,346,033	1,131,475	364,853	2,842,361

SEE NOTES TO FINANCIAL STATEMENTS

MADRID 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) \$ (418,264)

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

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

Capital outlay	\$ 1,547,923	
Depreciation expense	(242,674)	
Loss on disposal of capital assets	<u>(1,631)</u>	1,303,618

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 9,998

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

Repaid 223,000

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. (14,615)

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.

Compensated absences	\$ 1,889	
Other postemployment benefits	(331,243)	
Net pension liability	<u>147</u>	<u>(329,207)</u>

Change in net position of governmental activities(page 19) \$ 774,530

MADRID COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2014

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 4,653
Inventories	20,420
Capital assets, net of accumulated depreciation	8,944
TOTAL ASSETS	<u>34,017</u>
LIABILITIES	
Due to other funds	183,422
Unearned revenue	5,937
Net OPEB liability	55,551
TOTAL LIABILITIES	<u>244,910</u>
NET POSITION	
Net investment in capital assets	8,944
Unrestricted	(219,837)
TOTAL NET POSITION	<u>\$ (210,893)</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for service	\$ 183,900
Miscellaneous	7,411
Total operating revenues	191,311
Operating expenses:	
Non-instructional programs:	
Salaries	127,263
Benefits	73,767
Supplies	205,383
Depreciation	1,891
Total operating expenses	408,304
Operating loss	(216,993)
Non-operating revenues(expenses):	
State sources	3,032
Federal sources	141,064
Loss on disposal	(1,044)
Interest on investments	4
Total non-operating revenues(expenses)	143,056
Change in net position before other financing sources	(73,937)
Other financing sources:	
Capital contributions	4,586
Change in net position	(69,351)
Net position beginning of year	(141,542)
Net position end of year	\$ (210,893)

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2014

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 184,756
Cash received from miscellaneous	7,411
Cash payments to employees for services	(180,523)
Cash payments to suppliers for goods or services	(187,318)
Net cash used in operating activities	<u>(175,674)</u>
Cash flows from non-capital financing activities:	
Borrowings from General Fund	31,836
State grants received	3,032
Federal grants received	119,330
Net cash provided by non-capital financing activities	<u>154,198</u>
Cash flows from investing and other activities:	
Interest on investments	<u>4</u>
Net decrease in cash and cash equivalents	(21,472)
Cash and cash equivalents at beginning of year	<u>26,125</u>
Cash and cash equivalents at end of year	<u>\$ 4,653</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (216,993)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	21,734
Depreciation	1,891
Increase in inventories	(3,669)
Increase in other post employment benefits	20,507
Increase in unearned revenue	856
Net cash used in operating activities	<u>\$ (175,674)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2014, the District received \$21,734 of federal commodities.

During the year ended June 30, 2014, the District's Nutrition Fund received \$4,586 of capital contributions from the Capital Projects: Statewide Sales, Service and Use Tax Fund.

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

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 7,706
LIABILITIES	<u>-</u>
NET POSITION	
Restricted for scholarships	<u>\$ 7,706</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$ 10,000</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u> 10,250</u>
Change in net position	(250)
Net position beginning of year	<u> 7,956</u>
Net position end of year	<u><u> \$ 7,706</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

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

(1) Summary of Significant Accounting Policies

Madrid 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. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Madrid, Iowa, and the predominate agricultural territory in Boone, Dallas, and Polk Counties. The District is governed by a Board of Education, whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Madrid 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 Madrid 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 Boone, Dallas and Polk Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following nonmajor proprietary fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

Due from and Due to Other Funds - To the extent that certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund accounts receivable or payable have been recorded.

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

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

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

Asset Class	Amount
Land	\$ 1,200
Buildings	1,200
Land improvements	1,200
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,200

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

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

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 revenue 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 revenue consists of property tax receivables and other receivables not collected within sixty days after year end.

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

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

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General 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 the preceding classification.

E. Budgeting and Budgetary Control

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

(2) Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; 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. The District had no investments as of June 30, 2014.

(3) Due From and Due to Other Funds

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise, School Nutrition	<u>\$ 183,422</u>

The Enterprise, School Nutrition Fund is repaying the General Fund \$183,422. (See Comment II-N-14 for details.)

(4) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide, Sales, Services and Use Tax	<u>\$ 148,227</u>

The transfer from Capital Projects: Statewide, Sales, Services and Use Tax to Debt Service was needed for debt relief.

(5) **Capital Assets**

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 112,126	-	-	112,126
Construction in progress	1,011,626	1,232,679	2,232,143	12,162
Total capital assets not being depreciated	<u>1,123,752</u>	<u>1,232,679</u>	<u>2,232,143</u>	<u>124,288</u>
Capital assets being depreciated:				
Buildings	7,248,785	2,290,286	-	9,539,071
Land improvements	698,936	166,420	-	865,356
Machinery and equipment	1,041,343	90,681	34,230	1,097,794
Total capital assets being depreciated	<u>8,989,064</u>	<u>2,547,387</u>	<u>34,230</u>	<u>11,502,221</u>
Less accumulated depreciation for:				
Buildings	3,569,103	170,827	-	3,739,930
Land improvements	475,911	23,185	-	499,096
Machinery and equipment	812,346	48,662	32,599	828,409
Total accumulated depreciation	<u>4,857,360</u>	<u>242,674</u>	<u>32,599</u>	<u>5,067,435</u>
Total capital assets being depreciated, net	<u>4,131,704</u>	<u>2,304,713</u>	<u>1,631</u>	<u>6,434,786</u>
Governmental activities capital assets, net	<u>\$ 5,255,456</u>	<u>3,537,392</u>	<u>2,233,774</u>	<u>6,559,074</u>
Business type activities:				
Machinery and equipment	\$ 115,489	4,586	3,131	116,944
Less accumulated depreciation	108,196	1,891	2,087	108,000
Business type activities capital assets, net	<u>\$ 7,293</u>	<u>2,695</u>	<u>1,044</u>	<u>8,944</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 8,915
Support services:	
Administration	657
Operation and maintenance of plant	4,745
Transportation	34,345
	<u>48,662</u>
Unallocated depreciation	<u>194,012</u>
	<u>\$ 242,674</u>
Business type activities:	
Food services	<u>\$ 1,770</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 815,000	-	125,000	690,000	130,000
Revenue bonds	1,750,000	-	98,000	1,652,000	85,000
Compensated absences	9,702	7,813	9,702	7,813	7,813
Net OPEB liability	566,055	331,243	-	897,298	-
Net pension liability	100,876	-	147	100,729	-
Total	<u>\$ 3,241,633</u>	<u>339,056</u>	<u>232,849</u>	<u>3,347,840</u>	<u>222,813</u>
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 35,044	20,507	-	55,551	-

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of April 1, 2009			
	Interest Rate	Principal	Interest	Total
2015	3.10 %	\$ 130,000	25,005	155,005
2016	3.40	135,000	20,975	155,975
2017	3.70	135,000	16,385	151,385
2018	3.85	140,000	11,390	151,390
2019	4.00	150,000	6,000	156,000
Total		<u>\$ 690,000</u>	<u>79,755</u>	<u>769,755</u>

Revenue Bonds Payable

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

Year Ending June 30,	Bond dated April 1, 2013			
	Interest Rate	Principal	Interest	Total
2015	3.90 %	\$ 85,000	63,609	148,609
2016	3.90	88,000	60,275	148,275
2017	3.90	90,000	56,803	146,803
2018	3.90	92,000	53,294	145,294
2019	3.90	95,000	49,666	144,666
2020-2024	3.90	542,000	188,585	730,585
2025-2029	3.90	660,000	73,086	733,086
Total		\$ 1,652,000	545,318	2,197,318

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,750,000 of bonds issued April 1, 2013. The bonds were issued for the purpose of financing a portion of the costs of upgrading the high school roof and building as well as adding a new addition to the high school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limit of the District. Annual principal and interest payments on the bonds are expected to require approximately 24 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$2,197,318.

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

- a) The holder of these bonds, City State Bank, does not require a debt reserve account.
- b) Monthly transfers will be made from the statewide sales, services and use tax account at City State Bank to a sinking account at the same bank to make the semi-annual payments for the bonds.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$301,307, \$318,864, and \$294,105, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits

Plan Description – The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees and their spouses. For fiscal year 2014, there are 76 active and 14 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. All full time employees who retired during the year 2006 receives health coverage of \$490 per month until the age of 65, while staff that retired during the years 2007 through 2012 receives health coverage of \$447 per month until the age of 65. For all other retirees under age 65, the District pays the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

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

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	\$ 485,891
Interest on net OPEB obligation	15,027
Adjustment to annual required contribution	(54,303)
Annual OPEB cost	<u>446,615</u>
Contributions made	<u>(94,865)</u>
Increases in net OPEB obligation	351,750
Net OPEB obligation beginning of year	<u>601,099</u>
Net OPEB obligation end of year	<u><u>\$ 952,849</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.

For the year ended June 30, 2014, the District contributed \$94,865 to the medical plan.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2012	\$ 138,929	35.10%	\$ 249,431
2013	443,170	20.65%	601,099
2014	446,615	21.24%	952,849

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 \$2,042,075, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,042,075. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,063,118 and the ratio of the UAAL to covered payroll was 66.67%. 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 assumption 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, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Supplemental Pension Plan

The District implemented GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, and GASB Statement No. 50, Pension Disclosures - an Amendment of GASB Statements No. 25 and 27, during the year ended June 30, 2013.

Plan Description - The District offers a supplemental pension (early retirement incentive) for all full time employees who attain age 55, submit an application to the Superintendent, receive Board approval and retire by June 30 of the same year.

There are 77 active and 21 retired members in the plan as of June 30, 2014. The pension benefit is defined as 35% of the retiree's regular contracted salary.

Funding Policy - Payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payment of future benefits. The District makes the contributions from the Special Revenue, Management Levy fund.

Annual Pension Cost and Net Pension Obligation - The District's annual pension cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 27, as amended by GASB Statement No. 50. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal costs 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 pension cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net pension obligation:

Annual required contribution	\$ 38,070
Interest on net pension obligation	1,386
Adjustment to annual required contribution	(2,090)
Annual pension cost	<u>37,366</u>
Contributions made	<u>(37,513)</u>
Increases in net pension obligation	(147)
Net pension obligation beginning of year	<u>100,876</u>
Net pension obligation end of year	<u><u>\$ 100,729</u></u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 2011. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the District contributed \$37,513 to the pension plan.

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

Year Ended June 30,	Annual Pension Cost	Percentage of Annual Pension Costs Contributed	Net Pension Obligation
2013	\$ 197,336	48.88%	\$ 100,876
2014	37,366	100.39%	100,729

Funded Status and Funding Progress - As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was approximately \$331,417 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$331,417. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$750,901 and the ratio of the UAAL to covered payroll was 44.14%. 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 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, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2013 actuarial valuation date, the entry age actuarial cost method as a percent of pay was used. The actuarial assumptions include a 2.50% discount rate based on the District's funding policy. The salary increase rate was assumed to be 3.0% per year. The actuarial assumptions used for mortality rates, employee termination by age and group, employee retirement by age and group and others are similar to or identical to the GASB Statement No. 45 assumptions used to determine the OPEB. The remaining amortization period at June 30, 2014 is 30 years.

(10) Risk Management

Madrid 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.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$254,460 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Categorical Funding

The District’s ending balances for categorical funding by program as of the year ended June 30, 2014 are as follows:

Program	Amount
Limited english proficiency weighting	\$ 1,294
Home school assistance program	17,793
Teacher salary supplement	2,336
Beginning administrator mentoring and induction program	1,500
Four-year-old preschool state aid	23,458
Successful progression for early readers	17,239
Professional development for model core curriculum	37,746
Professional development	27,052
Market factor incentives	1,894
Teacher leadership grants	6,715
Model core curriculum	4,000
Total	<u>\$ 141,027</u>

(13) Deficit Unrestricted Net Position

The District had a deficit unrestricted net position of \$219,837 and a total deficit net position of \$210,893 in the Enterprise, School Nutrition Fund at June 30, 2014.

(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.

REQUIRED SUPPLEMENTARY INFORMATION

MADRID 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	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual	Actual			
Revenues:						
Local sources	\$ 2,775,407	191,315	2,966,722	3,864,600	3,864,600	(897,878)
Intermediate sources	-	-	-	3,000	3,000	(3,000)
State sources	4,807,371	3,032	4,810,403	4,188,936	4,188,936	621,467
Federal sources	142,939	141,064	284,003	278,711	278,711	5,292
Total revenues	<u>7,725,717</u>	<u>335,411</u>	<u>8,061,128</u>	<u>8,335,247</u>	<u>8,335,247</u>	<u>(274,119)</u>
Expenditures/Expenses:						
Instruction	4,559,994	-	4,559,994	4,775,000	4,775,000	215,006
Support services	1,858,642	-	1,858,642	2,223,000	2,223,000	364,358
Non-instructional programs	-	409,348	409,348	625,000	625,000	215,652
Other expenditures	1,725,345	-	1,725,345	3,074,762	3,074,762	1,349,417
Total expenditures/expenses	<u>8,143,981</u>	<u>409,348</u>	<u>8,553,329</u>	<u>10,697,762</u>	<u>10,697,762</u>	<u>2,144,433</u>
Deficiency of revenues under expenditures/expenses	(418,264)	(73,937)	(492,201)	(2,362,515)	(2,362,515)	1,870,314
Other financing sources(uses), net	-	4,586	4,586	-	-	(4,586)
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing sources(uses)	(418,264)	(69,351)	(487,615)	(2,362,515)	(2,362,515)	1,874,900
Balance beginning of year	<u>3,260,625</u>	<u>(141,542)</u>	<u>3,119,083</u>	<u>3,376,564</u>	<u>3,376,564</u>	<u>(257,481)</u>
Balance end of year	<u>\$ 2,842,361</u>	<u>(210,893)</u>	<u>2,631,468</u>	<u>1,014,049</u>	<u>1,014,049</u>	<u>1,617,419</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

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

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

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

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING IN PROGRESS FOR THE
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 672,326	672,326	0.0%	3,102,329	21.67%
2011	July 1, 2009	-	\$ 672,326	672,326	0.0%	2,983,186	22.54%
2012	July 1, 2009	-	\$ 672,326	672,326	0.0%	2,767,268	24.30%
2013	July 1, 2012	-	\$ 2,236,790	2,236,790	0.0%	3,456,549	64.71%
2014	July 1, 2012	-	\$ 2,042,075	2,042,075	0.0%	3,063,118	66.67%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING IN PROGRESS FOR THE
SUPPLEMENTAL PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2013	July 1, 2011	-	\$ 400,143	400,143	0.0%	2,677,118	14.95%
2014	July 1, 2013	-	\$ 331,417	331,417	0.0%	750,901	44.14%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual pension cost, net pension obligation, funded status and funding progress.



SUPPLEMENTARY INFORMATION

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

	Special Revenue				
	Manage- ment Levy	Student Activity	Total	Debt Service	Total
ASSETS					
Cash and pooled investments	\$ 213,741	42,359	256,100	103,645	359,745
Receivables:					
Property tax:					
Delinquent	2,996	-	2,996	2,008	5,004
Succeeding year	282,000	-	282,000	156,505	438,505
Due from other governments	63	-	63	41	104
TOTAL ASSETS	\$ 498,800	42,359	541,159	262,199	803,358
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	\$ 282,000	-	282,000	156,505	438,505
Fund balances:					
Restricted for:					
Student activities	-	42,359	42,359	-	42,359
Management levy purposes	216,800	-	216,800	-	216,800
Debt service	-	-	-	105,694	105,694
Total fund balances	216,800	42,359	259,159	105,694	364,853
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 498,800	42,359	259,159	262,199	803,358

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Special Revenue				
	Manage- ment Levy	Student Activity	Total	Debt Service	Total
Revenues:					
Local sources:					
Local tax	\$ 230,721	-	230,721	155,482	386,203
Other	4,452	141,356	145,808	31	145,839
Total revenues	<u>235,173</u>	<u>141,356</u>	<u>376,529</u>	<u>155,513</u>	<u>532,042</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	125,142	-	125,142	-	125,142
Other	-	146,095	146,095	-	146,095
Support services:					
Operation and maintenance of plant	36,871	-	36,871	-	36,871
Transportation	24,102	-	24,102	-	24,102
Long-term debt:					
Principal	-	-	-	223,000	223,000
Interest and fiscal charges	-	-	-	79,081	79,081
Total expenditures	<u>186,115</u>	<u>146,095</u>	<u>332,210</u>	<u>302,081</u>	<u>634,291</u>
Excess(Deficiency) of revenues over(under) expenditures	49,058	(4,739)	44,319	(146,568)	(102,249)
Other financing sources:					
Transfer in	-	-	-	148,227	148,227
Change in fund balances	49,058	(4,739)	44,319	1,659	45,978
Fund balances beginning of year	<u>167,742</u>	<u>47,098</u>	<u>214,840</u>	<u>104,035</u>	<u>318,875</u>
Fund balances end of year	<u>\$ 216,800</u>	<u>42,359</u>	<u>259,159</u>	<u>105,694</u>	<u>364,853</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Service and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 656,368	226,804	883,172
Receivables:			
Property tax:			
Delinquent	-	1,997	1,997
Succeeding year	-	156,355	156,355
Due from other governments	246,265	41	246,306
TOTAL ASSETS	\$ 902,633	385,197	1,287,830
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	\$ -	156,355	156,355
Fund balances:			
Restricted for:			
School infrastructure	902,633	-	902,633
Physical plant and equipment	-	228,842	228,842
Total fund balances	902,633	228,842	1,131,475
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 902,633	385,197	1,287,830

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Capital Projects		
	Statewide Sales, Service and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	154,667	154,667
Other	250	15,065	15,315
State sources	591,753	-	591,753
Total revenues	592,003	169,732	761,735
Expenditures:			
Current:			
Support services:			
Operation and maintenance of plant	-	61,750	61,750
Student transportation	-	26,280	26,280
	-	88,030	88,030
Capital outlay	1,038,532	130,272	1,168,804
Total expenditures	1,038,532	218,302	1,256,834
Deficiency of revenues under expenditures	(446,529)	(48,570)	(495,099)
Other financing uses:			
Transfer out	(148,227)	-	(148,227)
Change in fund balances	(594,756)	(48,570)	(643,326)
Fund balances beginning of year	1,497,389	277,412	1,774,801
Fund balances end of year	\$ 902,633	228,842	1,131,475

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 2,463	1,436	2,302	1,597
7-12 Vocal Music	231	2,238	2,469	-
7-12 Music Trip	3,436	8,040	9,101	2,375
7-12 Instrumental Music	451	-	-	451
Elementary Music	321	432	645	108
7-12 Activities	400	985	1,259	126
Yearbook	602	581	829	354
HS Student Council	38	1,304	1,160	182
JH Student Council	93	405	-	498
K-6 Student Council	274	-	-	274
K-6 Building	3,481	1,785	3,781	1,485
Athletic Uniforms	-	2,188	2,188	-
Activity Passes	-	3,625	3,625	-
Boys Basketball	243	9,742	9,630	355
Boys Basketball Camp	1,681	3,575	4,479	777
Football	766	23,837	24,311	292
Baseball	347	9,002	9,349	-
Boys Track	-	6,650	6,650	-
Golf	-	2,025	2,025	-
Football Camp	765	985	1,750	-
Girls Basketball	436	5,183	4,936	683
Volleyball	322	7,876	7,538	660
Softball	686	4,759	4,956	489
Girls Track	30	6,764	6,794	-
FCCLA	1,846	1,215	1,161	1,900
Spanish Club	613	-	-	613
Java jungle	-	1,419	1,006	413
HS Cheerleaders	-	5,145	2,044	3,101
JH Cheerleaders	334	-	-	334
Student pride club	-	4,039	2,608	1,431
Special olympics	-	197	164	33
7-12 Activity Awards	-	166	166	-
Team Tigers	19,069	21,219	22,166	18,122
Class of 2014	2,487	35	2,522	-
Class of 2015	2,708	3,837	4,401	2,144
Class of 2016	1,439	-	-	1,439
Class of 2017	1,199	344	-	1,543
Class of 2018	337	244	40	541
Class of 2019	-	79	40	39
Total	\$ 47,098	141,356	146,095	42,359

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST
 JUNE 30, 2014

	Private Purpose Trust - Scholarship Fund						
	Madrid Lions	Cathy Clark	Hinchliff Enterprises	Virgil Wood Scholarship	Star Lodge	Madrid Alumni	Total
ASSETS							
Cash and pooled investments	\$ 2,000	1,000	1,000	1,256	1,000	1,450	7,706
LIABILITIES							
	-	-	-	-	-	-	-
NET POSITION							
Retricted for scholarships	\$ 2,000	1,000	1,000	1,256	1,000	1,450	7,706

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION
 PRIVATE PURPOSE TRUST
 FOR YEAR ENDED JUNE 30, 2014

	Private Purpose Trust - Scholarship Fund							Total
	Madrid Lions	Cathy Clark	Hinchliff Enterprises	Virgil Wood Scholarship	Star Lodge	Madrid Alumni	Madrid Masonic	
Additions:								
Local sources:								
Gifts and contributions	\$ 2,000	500	1,000	5,000	1,000	500	-	10,000
Deductions:								
Instruction:								
Regular:								
Scholarships awarded	2,000	500	1,000	5,000	-	750	1,000	10,250
Change in net position	-	-	-	-	1,000	(250)	(1,000)	(250)
Net position beginning of year	2,000	1,000	1,000	1,256	-	1,700	1,000	7,956
Net position end of year	\$ 2,000	1,000	1,000	1,256	1,000	1,450	-	7,706

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 2,202,065	2,553,921	2,409,654	2,296,222	2,126,882	2,087,555	1,955,185	1,952,969	1,698,266	1,688,295
Tuition	358,782	303,193	301,690	290,362	240,222	241,925	202,345	173,929	177,624	155,947
Other	214,560	203,613	224,956	223,534	247,727	248,380	265,845	314,214	231,728	226,984
State sources	4,807,371	3,951,865	3,983,160	3,608,229	3,024,596	3,374,291	3,248,506	2,883,277	2,700,463	2,523,577
Federal sources	142,939	146,039	301,456	237,069	500,455	192,811	128,854	143,103	182,767	179,664
Total	\$ 7,725,717	7,158,631	7,220,916	6,655,416	6,139,882	6,144,962	5,800,735	5,467,492	4,990,848	4,774,467
Expenditures:										
Current:										
Instruction:										
Regular	\$ 3,108,201	3,006,747	2,995,658	2,693,765	2,687,857	2,601,546	2,420,174	2,165,517	2,044,434	1,914,044
Special	752,493	624,743	543,324	625,324	608,764	619,247	529,503	524,670	506,964	587,167
Other	699,300	612,524	620,900	593,624	592,104	517,616	537,375	515,255	527,272	498,422
Support services:										
Student	184,157	165,854	189,281	132,284	129,294	117,730	111,518	128,272	117,223	109,305
Instructional staff	165,260	203,877	199,840	221,920	181,813	134,805	151,619	143,674	202,236	194,616
Administration	654,938	557,141	583,600	569,338	553,073	549,483	523,941	548,187	494,642	459,971
Operation and maintenance of plant	603,640	428,455	470,323	507,326	463,686	430,363	463,548	453,402	440,722	396,592
Transportation	250,647	192,753	306,466	179,109	244,019	147,956	185,104	163,896	176,373	125,109
Non-instructional programs	-	-	-	-	9,373	6,638	6,000	5,432	4,177	68,190
Capital outlay	1,168,804	1,235,956	229,666	89,516	332,135	478,403	393,693	211,712	182,030	50,376
Long-term debt:										
Principal	223,000	188,192	184,827	176,460	110,000	95,000	95,000	90,000	85,000	80,000
Interest	79,081	35,723	41,789	47,521	42,412	82,787	67,868	72,408	76,233	79,833
Other expenditures:										
AEA flow-through	254,460	236,932	231,651	242,504	230,760	207,737	194,028	177,033	163,191	154,800
Total	\$ 8,143,981	7,488,897	6,597,325	6,078,691	6,185,290	5,989,311	5,679,371	5,199,458	5,020,497	4,718,425

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 Madrid 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 Madrid 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 17, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madrid 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.

Madrid Community School District's Responses to Findings

Madrid Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Madrid 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 Madrid Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2015
Newton, Iowa

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

Part I: Findings Related to the Basic 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 may perform two or more functions in each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Capital assets - purchasing, recording and reconciling.
- 6) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 7) Transfers - preparing and approving.
- 8) Financial reporting - preparing, reconciling and approving.
- 9) Computer systems - performing all general accounting functions and controlling all data input and output.
- 10) Journal entries - preparing, approving and posting journal entries to the accounting records.

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.

Response - The District will continue to review procedures and implement additional controls where possible.

Conclusion - Response accepted

I-B-14 Purchase Orders - We noted during our audit that the District currently uses a purchase order system in the purchasing process, however we noted that purchase orders were not always being completed.

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 generate, 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 purchases occur.

Response - We will work with employees to fill out purchase orders when purchasing items for the district.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget - District expenditures for the year ended June 30, 2014, did not exceed the amounts budgeted in any of the functional areas.

II-B-14 Questionable Disbursements - We noted the District purchased polo's for the Districts coaching staff during the year on two separate occasions. This does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should refrain from purchases that do not meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Response - The athletic director and coaches will be informed that coaching shirts cannot be paid for with public funds.

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. No travel advances to District officials or employees were noted.

II-D-14 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-14 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage 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. We did note one instance of the District not submitting Board Minutes for publication with two weeks after the completion of the Board Meeting as required by section 279.35 of the Code of Iowa.

Recommendation - The District should review its procedures to ensure compliance with section 279.35 of the Code of Iowa.

Response - Will make sure that all minutes are published within the two-week timeline.

Conclusion - Response accepted.

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

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

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

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

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

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

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

Beginning balance		\$	1,497,389
Revenues:			
Sales tax revenues	\$	591,753	
Other local revenues		250	592,003
			<hr/>
			2,089,392
Expenditures/transfers out:			
School infrastructure	\$	935,677	
Equipment		47,571	
Other		55,284	
Transfers to other funds:			
Debt service fund		148,227	1,186,759
			<hr/>
Ending balance		\$	<u>902,633</u>

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

II-M-14 Financial Condition - The District had a deficit unrestricted net position of \$219,837 and a total deficit net position of \$210,893 in the Enterprise, School Nutrition Fund at June 30, 2014.

Recommendation - The District should monitor this fund and investigate alternatives to eliminate the deficit.

Response - The District is currently investigating possible ways to eliminate the deficit.

Conclusion - Response accepted.

- II-N-14 Interfund Loan - In the year ended June 30, 2012 we noted a permanent transfer of \$86,813 from the General Fund to the Nutrition Fund to cover cash shortages at year end. We had requested a corrective transfer from Nutrition Fund to General Fund for this transfer that was completed by the District without permission from the School Budget Review Committee.

The District created an interfund loan between the General Fund and the Nutrition Fund of \$64,773 without approval from the District's Board of Directors to cover cash shortages created during the year ended June 30, 2013. The District created an additional interfund loan of \$31,836 without approval from the District's Board of Directors to cover cash shortages created during the year ended June 30, 2014. Additionally, as of the date of this report, the interfund loan between the General Fund and the Nutrition Fund had not been repaid.

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.

The District should contact the Iowa Department of Education to create a workout plan to eliminate the interfund loan. The Iowa Department of Education would work with the District to develop ideas of how to manage the Nutrition Fund budget on the revenues collected.

Additionally, the District needs to review program costs compared to sales, labor costs of staff, and possible issues with internal controls and reporting. The District should consider cutting staff benefits to bring the Nutrition Fund back to a level of self-sustainability. District staff may also need additional training to gain the knowledge needed to properly manage costs to revenues.

Response - The District will work with the Iowa Department of Education on correcting this matter.

Conclusion - Response accepted.