

EAST MILLS COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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East Mills Community School District

Officials

(Before September 2013 Elections)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Pete Franks	President	2013
Susan Stogdill	Vice President	2013
Rebecca Bell	Board Member	2013
Jeffery Poort	Board Member	2015
Matt Urban	Board Member	2015

(After September 2013 Elections)

Susan Stogdill	President	2017
Pete Franks	Vice President	2017
Brad Williams	Board Member	2017
Jeffery Poort	Board Member	2015
Matt Urban	Board Member	2015

School Officials

Paul Croghan	Superintendent	2014
Darla Hetzel	Business Manager/ Board Secretary	2014
Ahlers & Cooney, P.C.	Attorney	2014

EAST MILLS COMMUNITY SCHOOL DISTRICT

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

Independent Auditor's Report

To the Board of Education of East Mills Community School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Mills Community School District, Hastings, 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 East Mills Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Mills 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 two 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 7, 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 February 6, 2015, on our consideration of East Mills Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



NOLTE, CORNMAN & JOHNSON, P.C.

February 6, 2015
Newton Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2014 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,099,401 in fiscal 2013 to \$5,500,246 in fiscal 2014. General Fund expenditures decreased from \$5,852,160 in fiscal 2013 to \$5,166,257 in fiscal 2014. The decrease in General Fund revenues was primarily the result of decreases in local source revenues. The decrease in expenditures was due to reduced spending in the instruction and support services functional areas. This resulted in an increase of the District's General Fund balance from \$2,121,728 at June 30, 2013 to \$2,455,717 at June 30, 2014.
- The District's Management Levy Fund increased from a balance of \$787,466 at June 30, 2013 to a balance of \$1,370,891 at June 30, 2014 primarily due to an increase in local tax levied.

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 East Mills Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report East Mills Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which East Mills Community School District acts solely as an agent or custodial for the benefit of those outside of the District.

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

Figure A-1
East Mills Community School District Annual Financial Report

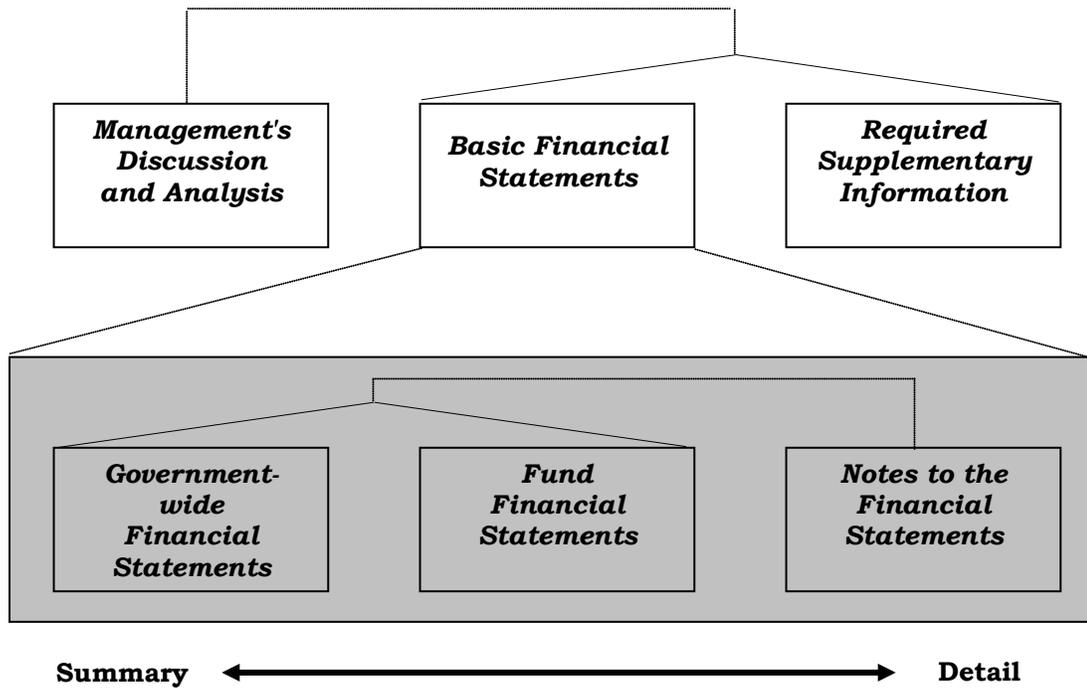


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

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

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

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds for which the District acts as an agent for funds that belong to an outside organization.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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	\$ 9,447,143	8,231,581	12,793	24,542	9,459,936	8,256,123	14.58%
Capital assets	5,238,209	5,509,360	20,491	24,352	5,258,700	5,533,712	-4.97%
Total assets	14,685,352	13,740,941	33,284	48,894	14,718,636	13,789,835	6.74%
Long-term obligations	4,811,129	4,991,415	1,173	842	4,812,302	4,992,257	-3.60%
Other liabilities	604,827	621,314	2,891	31,856	607,718	653,170	-6.96%
Total liabilities	5,415,956	5,612,729	4,064	32,698	5,420,020	5,645,427	-3.99%
Deferred inflows of resources	3,918,141	3,652,059	-	-	3,918,141	3,652,059	7.29%
Net position:							
Net investment in capital assets	1,543,071	1,501,873	20,491	24,352	1,563,562	1,526,225	2.45%
Restricted	1,469,933	1,194,830	-	-	1,469,933	1,194,830	23.02%
Unrestricted	2,338,251	1,779,450	8,729	(8,156)	2,346,980	1,771,294	32.50%
Total net position	\$ 5,351,255	4,476,153	29,220	16,196	5,380,475	4,492,349	19.77%

The District's combined net position increased 19.77% or \$888,126 compared to the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$275,103, or 23.02%, compared to the prior year. The increase in

restricted net position is mainly attributable to the increase in ending fund balance of the Management Levy Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements. This represents an increase of \$575,686 or 32.50% compared to the prior year. The increase in unrestricted net position is attributable to the increase in fund balance of the General Fund.

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
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Revenues & Transfers:							
Program revenues:							
Charges for service	\$ 343,551	332,295	105,156	109,500	448,707	441,795	1.56%
Operating grants, contributions and restricted interest	483,628	495,277	154,870	142,981	638,498	638,258	0.04%
Capital grants, contributions and restricted interest	8,000	-	-	-	8,000	-	100.00%
General revenues:							
Property tax	3,621,789	3,814,279	-	-	3,621,789	3,814,279	-5.05%
Income surtax	235,297	203,541	-	-	235,297	203,541	15.60%
Statewide sales, services and use tax	486,218	471,528	-	-	486,218	471,528	3.12%
Unrestricted state grants	2,343,451	2,396,003	-	-	2,343,451	2,396,003	-2.19%
Unrestricted investment earnings	74,005	62,180	67	273	74,072	62,453	18.60%
Other	44,763	52,543	683	2,552	45,446	55,095	-17.51%
Transfers	-	(1,146)	-	3,866	-	2,720	-100.00%
Total revenues & transfers	<u>7,640,702</u>	<u>7,826,500</u>	<u>260,776</u>	<u>259,172</u>	<u>7,901,478</u>	<u>8,085,672</u>	<u>-2.28%</u>
Program expenses:							
Governmental activities:							
Instructional	4,599,671	4,896,328	-	-	4,599,671	4,896,328	-6.06%
Support services	1,604,674	2,370,908	2,813	1,605	1,607,487	2,372,513	-32.25%
Non-instructional programs	-	-	244,939	276,861	244,939	276,861	-11.53%
Other expenses	561,255	575,224	-	-	561,255	575,224	-2.43%
Total expenses	<u>6,765,600</u>	<u>7,842,460</u>	<u>247,752</u>	<u>278,466</u>	<u>7,013,352</u>	<u>8,120,926</u>	<u>-13.64%</u>
Change in net position	875,102	(15,960)	13,024	(19,294)	888,126	(35,254)	-2619.22%
Net position beginning of year	<u>4,476,153</u>	<u>4,492,113</u>	<u>16,196</u>	<u>35,490</u>	<u>4,492,349</u>	<u>4,527,603</u>	<u>-0.78%</u>
Net position end of year	<u>\$ 5,351,255</u>	<u>4,476,153</u>	<u>29,220</u>	<u>16,196</u>	<u>5,380,475</u>	<u>4,492,349</u>	<u>19.77%</u>

In fiscal 2014, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants accounted for 87.51% of the revenue from governmental activities while charges for services and operating grants, contributions and restricted interest accounted for 99.71% of the revenue from business type activities.

The District's total revenues were \$7.90 million, of which \$7.64 million was for governmental activities and \$0.26 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.28% decrease in revenues and a 13.68% decrease in expenses. The decrease in revenues can be partly attributable to the decrease in property tax collected during the year. The decrease in expenses was primarily due to decreased spending in the instructional functional area.

Governmental Activities

Revenues for governmental activities were \$7,640,702 and expenses were \$6,765,600.

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.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 4,599,671	4,896,328	-6.06%	3,999,914	4,298,264	-6.94%
Support services	1,604,674	2,370,908	-32.32%	1,594,461	2,359,026	-32.41%
Other expenses	561,255	575,224	-2.43%	336,046	357,598	-6.03%
Totals	\$ 6,765,600	7,842,460	-13.73%	5,930,421	7,014,888	-15.46%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$343,551.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$491,628.
- The net cost of governmental activities was financed with \$3,621,789 in property tax, \$235,297 in income surtax, \$486,218 in statewide sales, services and use tax, \$2,343,451 in unrestricted state grants, \$74,005 in interest income and \$44,763 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$260,776 and expenses were \$247,752. 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 and other general revenues.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$4,715,985, above last year's ending fund balances of \$3,778,446. The primary reason for the increase in combined fund balances in fiscal 2014 is due to the increase in fund balances of the General Fund and the Management Levy Fund.

Governmental Fund Highlights

- The District's General Fund balance increased from \$2,121,728 on June 30, 2013 to \$2,455,717 on June 30, 2014. Revenues and expenditures decreased compared to the prior year. Revenues outpaced expenditures ensuring the improvement in the District's General Fund financial position.
- The Management Levy Fund balance increased from \$787,466 at June 30, 2013 to \$1,370,891 at June 30, 2014. The increase was the result of additional tax levied to support termination benefits for early retirees.
- The Debt Service Fund balance decreased from \$117,039 at June 30, 2013 to \$62,667 at June 30, 2014. The decrease was the result of the District calling G.O. Bonds dated May 1, 2005 as part of a current refunding issuance during fiscal 2014.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$16,196 at June 30, 2013 to \$29,220 at June 30, 2014. This represents an increase of approximately 80.41%.

BUDGETARY HIGHLIGHTS

Over the course of the year, East Mills Community School District amended its budget one time to reflect additional expenditures associated with the District refunding general obligation bonds.

The District's revenues were \$48,709 more than budgeted revenues, a variance of 0.62%. The most significant variance resulted from the District receiving more from 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 then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$5,258,700, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$312,315.

The original cost of the District's capital assets was \$11,135,793. Governmental funds account for \$10,984,587 with the remainder of \$151,206 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$274,246 at June 30, 2014, compared to \$385,532 at June 30, 2013. The decrease was due to depreciation expense recorded during the year.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 47,500	47,500	-	-	47,500	47,500	0.00%
Buildings	4,695,536	4,838,557	-	-	4,695,536	4,838,557	-2.96%
Improvements other than buildings	241,418	262,123	-	-	241,418	262,123	-7.90%
Machinery and equipment	253,755	361,180	20,491	24,352	274,246	385,532	-28.87%
Total	\$ 5,238,209	5,509,360	20,491	24,352	5,258,700	5,533,712	-4.97%

Long-Term Debt

At June 30, 2014, the District had long-term debt outstanding of \$4,812,302 in general obligation bonds, revenue bonds, computer lease, net OPEB liability, and termination benefits. This represents a decrease of 3.60% from the prior year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

- The District had outstanding general obligation bonds payable from the Debt Service Fund of \$1,855,000 at June 30, 2014.
- The District had revenue bonds payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$1,665,000 at June 30, 2014.
- The District had a computer lease payable Capital Projects: Statewide Sales, Services and Use Tax Fund of \$175,138 at June 30, 2014.
- The District had termination benefits payable of \$1,033,964 payable from the Management Levy Fund at June 30, 2014.
- The District had a net OPEB liability of \$83,200, \$82,027 is attributable to the governmental activities and \$1,173 is attributable to business type activities.

	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
General obligation bonds	\$ 1,855,000	1,975,000	-	-	1,855,000	1,975,000	-6.08%
Revenue bonds	1,665,000	1,745,000	-	-	1,665,000	1,745,000	-4.58%
Computer lease	175,138	287,487	-	-	175,138	287,487	-39.08%
Termination benefits	1,033,964	930,120	-	-	1,033,964	930,120	11.16%
Net OPEB liability	82,027	53,808	1,173	842	83,200	54,650	52.24%
Total	\$ 4,811,129	4,991,415	1,173	842	4,812,302	4,992,257	-3.60%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

- The East Mills Community School District issued general obligation bonds that are payable through May 2025. The District's savings were \$284,411 from this issuance.
- The District is looking at ways to reduce expenditures to improve the unspent budget authority balance.
- The District offered an early retirement incentive in fiscal year's 2013 and 2014. This offering reduced positions and salary and benefit expenditures. The District also reduced expenditures through re-aligning District facilities. These cost reduction policies helped the District finish fiscal year 2014 with a positive unspent budget authority.
- A decrease in enrollment had a negative impact on the District's spending authority.
- The District is aware of an increase in worker's compensation claims and is reviewing plans and procedures to reduce the amount of claims in the future. This insurance is paid out of the Management Fund.

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 Darla Hetzel, Business Manager/Board Secretary, East Mills Community School District, 58962 380th Street, Hastings, Iowa 51540.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 4,903,102	7,391	4,910,493
Receivables:			
Property tax:			
Delinquent	43,266	-	43,266
Succeeding year	3,918,141	-	3,918,141
Income surtax	199,512	-	199,512
Accounts	4,567	-	4,567
Due from other governments	378,555	-	378,555
Inventories	-	5,402	5,402
Capital assets, net of accumulated depreciation	5,238,209	20,491	5,258,700
Total assets	14,685,352	33,284	14,718,636
Liabilities			
Accounts payable	230,961	73	231,034
Salaries and benefits payable	345,677	-	345,677
Deposits payable	6,580	-	6,580
Accrued interest payable	7,737	-	7,737
Advances from grantors	13,872	-	13,872
Unearned revenue	-	2,818	2,818
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	155,000	-	155,000
Revenue bonds payable	80,000	-	80,000
Computer lease payable	115,859	-	115,859
Termination benefits payable	414,029	-	414,029
Portion due after one year:			
General obligation bonds payable	1,700,000	-	1,700,000
Revenue bonds payable	1,585,000	-	1,585,000
Computer lease payable	59,279	-	59,279
Termination benefits payable	619,935	-	619,935
Net OPEB liability	82,027	1,173	83,200
Total liabilities	5,415,956	4,064	5,420,020
Deferred inflows of resources			
Unavailable property tax revenue	3,918,141	-	3,918,141
Net Position			
Net investment in capital assets	1,543,071	20,491	1,563,562
Restricted for:			
Categorical funding	251,366	-	251,366
Debt service	218,974	-	218,974
Management levy purposes	336,927	-	336,927
Student activities	99,454	-	99,454
School infrastructure	496,308	-	496,308
Physical plant and equipment	66,904	-	66,904
Unrestricted	2,338,251	8,729	2,346,980
Total net position	\$ 5,351,255	29,220	5,380,475

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MILLS 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	\$ 3,293,190	137,895	84,809	-	(3,070,486)	-	(3,070,486)
Special	746,697	56,376	26,657	-	(663,664)	-	(663,664)
Other	559,784	149,280	144,740	-	(265,764)	-	(265,764)
	4,599,671	343,551	256,206	-	(3,999,914)	-	(3,999,914)
Support services:							
Student	71,191	-	-	-	(71,191)	-	(71,191)
Instructional staff	119,895	-	-	-	(119,895)	-	(119,895)
Administration	454,285	-	-	-	(454,285)	-	(454,285)
Operation and maintenance of plant	566,669	-	-	8,000	(558,669)	-	(558,669)
Transportation	392,634	-	2,213	-	(390,421)	-	(390,421)
	1,604,674	-	2,213	8,000	(1,594,461)	-	(1,594,461)
Long-term debt interest	172,320	-	-	-	(172,320)	-	(172,320)
Other expenses:							
AEA flowthrough	225,209	-	225,209	-	-	-	-
Depreciation(unallocated)*	163,726	-	-	-	(163,726)	-	(163,726)
	388,935	-	225,209	-	(163,726)	-	(163,726)
Total governmental activities	6,765,600	343,551	483,628	8,000	(5,930,421)	-	(5,930,421)
Business type activities:							
Support services:							
Administration	1,075	-	-	-	-	(1,075)	(1,075)
Operation and maintenance of plant	1,738	-	-	-	-	(1,738)	(1,738)
	2,813	-	-	-	-	(2,813)	(2,813)
Non-instructional programs:							
Food service operations	244,939	105,156	154,870	-	-	15,087	15,087
Total business type activities	247,752	105,156	154,870	-	-	12,274	12,274
Total	\$ 7,013,352	448,707	638,498	8,000	(5,930,421)	12,274	(5,918,147)
General Revenues:							
Property tax levied for:							
General purposes				\$ 3,357,604	-		3,357,604
Debt service				172,016	-		172,016
Capital outlay				92,169	-		92,169
Income surtax				235,297	-		235,297
Statewide sales, services and use tax				486,218	-		486,218
Unrestricted state grants				2,343,451	-		2,343,451
Unrestricted investment earnings				74,005	67		74,072
Other				44,763	683		45,446
Total general revenues				6,805,523	750		6,806,273
Change in net position				875,102	13,024		888,126
Net position beginning of year				4,476,153	16,196		4,492,349
Net position end of year				\$ 5,351,255	29,220		5,380,475

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Management Levy	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 2,899,028	1,356,583	60,696	570,380	4,886,687
Receivables:					
Property tax:					
Delinquent	25,884	14,308	1,971	1,103	43,266
Succeeding year	2,374,833	1,299,998	145,063	98,247	3,918,141
Income surtax	199,512	-	-	-	199,512
Accounts	4,567	-	-	-	4,567
Due from other governments	118,709	-	-	259,846	378,555
Total assets	\$ 5,622,533	2,670,889	207,730	929,576	9,430,728
Liabilities, deferred inflows of resources and fund balances					
Liabilities:					
Accounts payable	\$ 226,342	-	-	4,619	230,961
Salaries and benefits payable	345,677	-	-	-	345,677
Deposits payable	6,580	-	-	-	6,580
Advances from grantors	13,872	-	-	-	13,872
Total liabilities	592,471	-	-	4,619	597,090
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	2,374,833	1,299,998	145,063	98,247	3,918,141
Income surtax	199,512	-	-	-	199,512
Total deferred inflows of resources	2,574,345	1,299,998	145,063	98,247	4,117,653
Fund balances:					
Restricted for:					
Categorical funding	251,366	-	-	-	251,366
Debt service	-	-	62,667	164,044	226,711
Management levy purposes	-	1,370,891	-	-	1,370,891
Student activities	-	-	-	99,454	99,454
School infrastructure	-	-	-	496,308	496,308
Physical plant and equipment	-	-	-	66,904	66,904
Unassigned	2,204,351	-	-	-	2,204,351
Total fund balances	2,455,717	1,370,891	62,667	826,710	4,715,985
Total liabilities, deferred inflows of resources and fund balances	\$ 5,622,533	2,670,889	207,730	929,576	9,430,728

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds(page 20)	\$	4,715,985
 <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.		5,238,209
Blending of the Internal Service Fund to be reflected on an entity-wide basis.		16,415
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		199,512
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.		(7,737)
Long-term liabilities, including general obligation bonds payable, revenue bonds payable, computer lease payable, termination benefits payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(4,811,129)</u>
Net position of governmental activities(page 18)	\$	<u><u>5,351,255</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Management Levy	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,400,619	1,181,835	172,016	92,169	3,846,639
Tuition	183,084	-	-	-	183,084
Other	99,690	27,337	5,130	164,758	296,915
State sources	2,655,863	451	60	486,253	3,142,627
Federal sources	160,990	-	-	-	160,990
Total revenues	<u>5,500,246</u>	<u>1,209,623</u>	<u>177,206</u>	<u>743,180</u>	<u>7,630,255</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,453,435	448,665	-	-	2,902,100
Special	726,231	-	-	-	726,231
Other	424,712	-	-	137,508	562,220
	<u>3,604,378</u>	<u>448,665</u>	<u>-</u>	<u>137,508</u>	<u>4,190,551</u>
Support services:					
Student	69,217	-	-	-	69,217
Instructional staff	47,925	-	-	68,934	116,859
Administration	492,514	4,565	16,700	3,700	517,479
Operation and maintenance of plant	379,539	156,225	-	6,200	541,964
Transportation	347,475	16,743	-	-	364,218
	<u>1,336,670</u>	<u>177,533</u>	<u>16,700</u>	<u>78,834</u>	<u>1,609,737</u>
Capital outlay	-	-	-	180,538	180,538
Long-term debt:					
Principal	-	-	2,167,349	-	2,167,349
Interest and fiscal charges	-	-	182,411	-	182,411
	<u>-</u>	<u>-</u>	<u>2,349,760</u>	<u>-</u>	<u>2,349,760</u>
Other expenditures:					
AEA flowthrough	225,209	-	-	-	225,209
Total expenditures	<u>5,166,257</u>	<u>626,198</u>	<u>2,366,460</u>	<u>396,880</u>	<u>8,555,795</u>
Excess(Deficiency) of revenues over(under) expenditures	333,989	583,425	(2,189,254)	346,300	(925,540)
Other financing sources(uses):					
Transfer in	-	-	271,803	-	271,803
Transfer out	-	-	-	(271,803)	(271,803)
Issuance of general obligation bonds	-	-	1,855,000	-	1,855,000
Premium on issuance of general obligation bonds	-	-	20,700	-	20,700
Discount on issuance of general obligation bonds	-	-	(12,621)	-	(12,621)
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>2,134,882</u>	<u>(271,803)</u>	<u>1,863,079</u>
Change in fund balances	333,989	583,425	(54,372)	74,497	937,539
Fund balances beginning of year	<u>2,121,728</u>	<u>787,466</u>	<u>117,039</u>	<u>752,213</u>	<u>3,778,446</u>
Fund balances end of year	<u>\$ 2,455,717</u>	<u>1,370,891</u>	<u>62,667</u>	<u>826,710</u>	<u>4,715,985</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Change in fund balances - total governmental funds(page 22) \$ 937,539

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

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

Capital outlay	\$ 37,303	
Depreciation expense	<u>(308,454)</u>	(271,151)

Net change in Internal Service Fund charged back against expenditures made for self-funded insurance on an entity-wide basis 7,890

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:

Issued	(1,855,000)	
Repaid	<u>2,167,349</u>	312,349

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. 10,091

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 10,447

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

Termination benefits	(103,844)	
Other postemployment benefits	<u>(28,219)</u>	(132,063)

Change in net position of governmental activities(page 19) \$ 875,102

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
Assets		
Cash and cash equivalents	\$ 7,391	16,415
Inventories	5,402	-
Capital assets, net of accumulated depreciation	20,491	-
Total assets	33,284	16,415
Liabilities		
Accounts payable	73	-
Unearned revenue	2,818	-
Net OPEB liability	1,173	-
Total liabilities	4,064	-
Net position		
Invested in capital assets	20,491	-
Unrestricted	8,729	16,415
Total net position	\$ 29,220	16,415

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 105,156	-
Donations	5,000	-
Miscellaneous	683	9,140
Total operating revenues	<u>110,839</u>	<u>9,140</u>
Operating expenses:		
Support services:		
Administration:		
Services	1,075	1,449
Operation and maintenance of plant:		
Services	1,738	-
	<u>2,813</u>	<u>1,449</u>
Non-instructional programs:		
Food service operations:		
Salaries	81,442	-
Benefits	22,633	-
Services	600	-
Supplies	136,403	-
Depreciation	3,861	-
	<u>244,939</u>	<u>-</u>
Total operating expenses	<u>247,752</u>	<u>1,449</u>
Operating income(loss)	<u>(136,913)</u>	<u>7,691</u>
Non-operating revenues:		
State sources	2,299	-
Federal sources	147,571	-
Interest on investments	67	199
Total non-operating revenues	<u>149,937</u>	<u>199</u>
Change in net position	13,024	7,890
Net position beginning of year	<u>16,196</u>	<u>8,525</u>
Net position end of year	<u>\$ 29,220</u>	<u>16,415</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 106,118	-
Cash received from donations	5,000	-
Cash received from miscellaneous	683	9,140
Cash payments to employees for services	(103,744)	(1,449)
Cash payments to suppliers for goods or services	(121,325)	-
Net cash provided by(used in) operating activities	<u>(113,268)</u>	<u>7,691</u>
Cash flows from non-capital financing activities:		
Repayment to General Fund	(30,000)	-
State grants received	2,299	-
Federal grants received	128,595	-
Net cash provided by non-capital financing activities	<u>100,894</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	67	199
Net increase(decrease) in cash and cash equivalents	(12,307)	7,890
Cash and cash equivalents beginning of year	19,698	762
Cash and cash equivalents end of year	<u>\$ 7,391</u>	<u>8,652</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (136,913)	7,691
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	18,976	-
Depreciation	3,861	-
Increase in inventories	(558)	-
Increase in accounts payable	73	-
Increase in unearned revenue	962	-
Increase in other postemployment benefits	331	-
Net cash provided by(used in) operating activities	<u>\$ (113,268)</u>	<u>7,691</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2014, the District received \$18,976 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MILLS COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<hr/>	
	Private Purpose	
	Trust	
	<hr/>	<hr/>
	Scholarship	Agency
	<hr/>	<hr/>
Assets		
Cash and pooled investments	\$ 925	1,969
	<hr/>	<hr/>
Liabilities		
Due to other groups	-	1,969
	<hr/>	<hr/>
Net Position		
Restricted for scholarships	\$ 925	-
	<hr/>	<hr/>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:	\$	-
Deductions:		
Instruction:		
Regular:		
Scholarships awarded		<u>900</u>
Change in net position		(900)
Net position beginning of year		<u>1,825</u>
Net position end of year	\$	<u><u>925</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MILLS COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Note 1. Summary of Significant Accounting Policies

The East Mills Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the cities of Malvern, Hastings, Henderson and Emerson, Iowa, and the predominately agricultural territory in a portion of Mills and Montgomery 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, East Mills Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The East Mills Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management 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 nonmajor governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax 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 Special Revenue, Management Levy Fund is utilized to account for the payment of property insurance and termination benefits.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following nonmajor proprietary fund:

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

The District reports another proprietary fund:

The Internal Service Fund is utilized to account for the District's flexible spending account.

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

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible

within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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 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, intangibles, machinery, equipment, and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ -
Buildings	2,000
Improvements other than buildings	2,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Years of Useful Life
Buildings	25-50 years
Improvements other than buildings	20 years
Intangibles	2 or more years
Machinery and equipment	5-20 years

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

Deposits Payable - Deposits collected from students for the use of District computers that were collected before year end but will not be spent until a succeeding year.

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

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

Deferred inflows of resources 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.

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, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

Unassigned - All amounts not included in the preceding classification.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures in the instructional and non-instructional program functional areas exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

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

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$164,054 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

Note 3. Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 271,803

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

Note 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 47,500	-	-	47,500
Total capital assets not being depreciated	47,500	-	-	47,500
Capital assets being depreciated:				
Buildings	7,609,598	-	-	7,609,598
Improvements other than buildings	745,355	-	-	745,355
Machinery and equipment	2,544,831	37,303	-	2,582,134
Total capital assets being depreciated	10,899,784	37,303	-	10,937,087
Less accumulated depreciation for:				
Buildings	2,771,041	143,021	-	2,914,062
Improvements other than buildings	483,232	20,705	-	503,937
Machinery and equipment	2,183,651	144,728	-	2,328,379
Total accumulated depreciation	5,437,924	308,454	-	5,746,378
Total capital assets being depreciated, net	5,461,860	(271,151)	-	5,190,709
Governmental activities capital assets, net	\$ 5,509,360	(271,151)	-	5,238,209
Business type activities:				
Machinery and equipment	\$ 151,206	-	-	151,206
Less accumulated depreciation	126,854	3,861	-	130,715
Business type activities capital assets, net	\$ 24,352	(3,861)	-	20,491

Depreciation expense was charged to the following functions:

Governmental activities:		
Instruction:		
Regular		\$ 116,077
Other		873
Support services:		
Administration		4,011
Operation and maintenance of plant		5,955
Transportation		17,812
		<u>144,728</u>
Unallocated depreciation		<u>163,726</u>
		<u>\$ 308,454</u>
Business type activities:		
Food services operations		<u>\$ 3,861</u>

Note 5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,975,000	1,855,000	1,975,000	1,855,000	155,000
Revenue bonds	1,745,000	-	80,000	1,665,000	80,000
Computer lease	287,487	-	112,349	175,138	115,859
Termination benefits	930,120	373,636	269,792	1,033,964	414,029
Net OPEB liability	53,808	28,219	-	82,027	-
	<u>\$ 4,991,415</u>	<u>2,256,855</u>	<u>2,437,141</u>	<u>4,811,129</u>	<u>764,888</u>
Business type activities:					
Net OPEB liability	\$ 842	331	-	1,173	-

General Obligation Bonds

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

Year Ending June 30,	Refunding Bonds Dated March 25, 2014				
	Interest Rates	Principal	Interest	Total	
2015	1.50	% \$ 155,000	40,064	195,064	
2016	1.50	160,000	33,200	193,200	
2017	1.50	160,000	30,800	190,800	
2018	1.50	165,000	28,400	193,400	
2019	1.50	165,000	25,925	190,925	
2020-2024	2.00-2.45	865,000	82,913	947,913	
2025	2.45-2.65	185,000	4,902	189,902	
Total		<u>\$ 1,855,000</u>	<u>246,204</u>	<u>2,101,204</u>	

Revenue Bonds

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

Year Ending June 30,	Revenue Bonds Dated May 1, 2009				
	Interest Rates		Principal	Interest	Total
2015	3.75	% \$	80,000	81,430	161,430
2016	3.75		85,000	78,430	163,430
2017	4.20		85,000	75,242	160,242
2018	4.20		90,000	71,673	161,673
2019	4.60		95,000	67,892	162,892
2020-2024	4.60-5.10		535,000	268,613	803,613
2025-2029	5.10-5.40		695,000	116,062	811,062
			<u>\$ 1,665,000</u>	<u>759,342</u>	<u>2,424,342</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,950,000 of bonds issued May 1, 2009. The bonds were issued for the purpose of financing a portion of the costs of an addition and remodeling of the existing 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 33 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$2,424,342. For the current year, \$80,000 of principal and \$84,030 of interest were paid on the bonds and total statewide sales, services and use tax revenues were \$486,218.

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

- a) \$164,030 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited in the sinking account. The reserve account is maintained in the Capital Projects: Statewide Sales Services and Use Tax Fund.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Moneys in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Computer Lease

During the year ended June 30, 2012, the District entered into a capital lease for the purchase of computer equipment. The lease payments are payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund. Details of the District’s indebtedness under the agreement at June 30, 2014 are as follows:

Year Ending June 30,	Computer lease dated March 1, 2012			
	Interest Rates	Principal	Interest	Total
2015	2.74	% \$ 115,859	4,538	120,397
2016	2.74	59,279	919	60,198
		<u>\$ 175,138</u>	<u>5,457</u>	<u>180,595</u>

Termination Benefits

The District approved a voluntary early retirement plan for employees in fiscal years 2013 and 2014. Eligible employees must have reached the age off 55 at the actual date of retirement, completed five years of service at the District immediately prior to retiring and be employed on a full-time basis as a certified teacher or administrator during the last school year prior to early retirement.

Early retirement benefits equal 75% of the employee’s current regular salary contributed to a Special Pay Plan per Internal Revenue Code 403(b). The retiring employee would receive 50% of this with an additional 10% for each year employed at the District over five years with a maximum limit of 100%. For the fiscal year 2013 retirees, the contribution will be paid in two equal annual installments on July 15th. For the fiscal year 2014 retirees, the contribution will be paid in one installment on July 15th.

Additionally the District will continue to pay the employees’ health insurance premium in the District’s plan until the employee reaches the age of 65 or otherwise ceases to participate in the District’s health insurance plan. For the fiscal year 2013 retirees, the employer’s contribution is fixed at the 2013-2014 cost, for the fiscal year 2014 retirees, the employer’s contribution is fixed at the 2014-2015 cost, with any increases being the employee’s obligation.

Additionally the District will continue to make the current contribution to the employee’s Tax Sheltered Annuity, if any, until the employee reaches the age of 65 or otherwise ceases to participate in such a plan.

At June 30, 2014, the District has obligations to thirteen participants with a total liability of \$1,033,964. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$269,792.

Note 6. 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 \$234,021, \$271,743 and \$229,976, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits

Plan Description - The District operates a single-employer health benefit plan which provides medical benefits for employees, retirees and their spouses. There are 42 active and 5 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

Annual OPEB Cost and Net OPEB Obligation - The District’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 25 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	\$ 36,780
Interest on net OPEB obligation	1,366
Adjustment to annual required contribution	(3,326)
Annual OPEB cost	<u>34,820</u>
Contributions made	<u>(6,270)</u>
Increase in net OPEB obligation	28,550
Net OPEB obligation beginning of year	54,650
Net OPEB obligation end of year	<u><u>\$ 83,200</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. 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 \$6,270 to the 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 Cost Contributed	Net OPEB Obligation
2012	\$ 49,865	44.4%	\$ 27,717
2013	53,451	45.7%	54,650
2014	34,820	18.0%	83,200

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$168,643, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$168,643. The covered payroll (annual payroll of active employees covered by the plan) was \$1,457,211 and the ratio of the UAAL to covered payroll was 11.57%. As of June 30, 2014 there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, 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, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the East Mills Community School District. The UAAL is being amortized as a level percentage of the projected payroll expense on an open basis over 25 years.

Note 8. Risk Management

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

Note 9. 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 \$225,209 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2014, expenditures in the instructional and non-instructional program functional areas exceeded the certified budget.

Note 11. Prospective Accounting Change

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

Note 12. Categorical Funding

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

Program	Amount
Limited english proficiency	\$ 1,334
Returning dropouts and dropout prevention programs	4,737
Four-year-old preschool state aid	147,011
Early childhood programs	7,083
Professional development for model core curriculum	47,278
Professional development	22,429
Teacher leadership grant	7,063
Successful progression for early readers	14,431
Total	<u>\$ 251,366</u>

Note 13. Reconciliation of Governmental Fund Balances to Net Position

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

	Invested in Capital Assets	Management Levy	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	1,370,891	226,711	2,204,351
Invested in capital assets, net of accumulated depreciation	5,238,209	-	-	-
General obligation bond capitalized indebtedness	(1,855,000)	-	-	-
Revenue bond capitalized indebtedness	(1,665,000)	-	-	-
Computer lease capitalized indebtedness	(175,138)	-	-	-
Income surtax	-	-	-	199,512
Internal service fund	-	-	-	16,415
Termination benefits payable	-	(1,033,964)	-	-
Accrued interest payable	-	-	(7,737)	-
Net OPEB liability	-	-	-	(82,027)
Net position (Exhibit A)	<u>\$ 1,543,071</u>	<u>336,927</u>	<u>218,974</u>	<u>2,338,251</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual			Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
Revenues:						
Local sources	\$ 4,326,638	110,906	4,437,544	4,964,200	4,964,200	(526,656)
State sources	3,142,627	2,299	3,144,926	2,561,932	2,561,932	582,994
Federal sources	160,990	147,571	308,561	316,190	316,190	(7,629)
Total revenues	<u>7,630,255</u>	<u>260,776</u>	<u>7,891,031</u>	<u>7,842,322</u>	<u>7,842,322</u>	<u>48,709</u>
Expenditures/Expenses:						
Instruction	4,190,551	-	4,190,551	4,140,000	4,140,000	(50,551)
Support services	1,609,737	2,813	1,612,550	2,367,300	2,367,300	754,750
Non-instructional programs	-	244,939	244,939	214,800	214,800	(30,139)
Other expenditures	2,755,507	-	2,755,507	1,216,003	3,000,000	244,493
Total expenditures/expenses	<u>8,555,795</u>	<u>247,752</u>	<u>8,803,547</u>	<u>7,938,103</u>	<u>9,722,100</u>	<u>918,553</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(925,540)	13,024	(912,516)	(95,781)	(1,879,778)	967,262
Other financing sources, net	<u>1,863,079</u>	-	<u>1,863,079</u>	-	-	<u>1,863,079</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	937,539	13,024	950,563	(95,781)	(1,879,778)	2,830,341
Balances beginning of year	<u>3,778,446</u>	<u>16,196</u>	<u>3,794,642</u>	<u>3,809,498</u>	<u>3,809,498</u>	<u>(14,856)</u>
Balances end of year	<u>\$ 4,715,985</u>	<u>29,220</u>	<u>4,745,205</u>	<u>3,713,717</u>	<u>1,929,720</u>	<u>2,815,485</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$1,783,997.

During the year ended June 30, 2014, expenditures in the instructional and non-instructional program functional areas exceeded the amounts budgeted.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2012	July 1, 2011	-	\$ 257,008	\$ 257,008	0.0%	\$ 1,766,825	14.55%
2013	July 1, 2011	-	225,507	225,507	0.0%	1,773,349	12.72%
2014	July 1, 2011	-	168,643	168,643	0.0%	1,457,211	11.57%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

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

	Special Revenue:		
	Student Activity	Capital Projects	Total Nonmajor
Assets			
Cash and pooled investments	\$ 100,919	469,461	570,380
Receivables:			
Property tax:			
Delinquent	-	1,103	1,103
Succeeding year	-	98,247	98,247
Due from other governments	-	259,846	259,846
Total assets	\$ 100,919	828,657	929,576
Liabilities, deferred inflows of resources and fund balances			
Liabilities:			
Accounts payable	\$ 1,465	3,154	4,619
Deferred inflows of resources			
Unavailable revenues:			
Succeeding years property tax	-	98,247	98,247
Fund balances:			
Restricted for:			
Debt service	-	164,044	164,044
Student activities	99,454	-	99,454
School infrastructure	-	496,308	496,308
Physical plant and equipment	-	66,904	66,904
Total fund balances	99,454	727,256	826,710
Total liabilities, deferred inflows of resources and fund balances	\$ 100,919	828,657	929,576

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue:		
	Student Activity	Capital Projects	Total
Revenues:			
Local sources:			
Local tax	\$ -	92,169	92,169
Other	151,135	13,623	164,758
State sources	-	486,253	486,253
Total revenues	<u>151,135</u>	<u>592,045</u>	<u>743,180</u>
Expenditures:			
Current:			
Instruction:			
Other	137,508	-	137,508
Support services:			
Instructional staff	-	68,934	68,934
Administration	-	3,700	3,700
Operation and maintenance of plant	-	6,200	6,200
Capital outlay	-	180,538	180,538
Total expenditures	<u>137,508</u>	<u>259,372</u>	<u>396,880</u>
Excess of revenues over expenditures	13,627	332,673	346,300
Other financing uses:			
Transfer out	-	(271,803)	(271,803)
Change in fund balances	13,627	60,870	74,497
Fund balances beginning of year	<u>85,827</u>	<u>666,386</u>	<u>752,213</u>
Fund balances end of year	<u>\$ 99,454</u>	<u>727,256</u>	<u>826,710</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 401,506	67,955	469,461
Receivables:			
Property tax:			
Delinquent	-	1,103	1,103
Succeeding year	-	98,247	98,247
Due from other governments	259,846	-	259,846
Total assets	\$ 661,352	167,305	828,657
Liabilities, deferred inflows of resources and fund balances			
Liabilities:			
Accounts payable	\$ 1,000	2,154	3,154
Deferred inflows of resources			
Unavailable revenues:			
Succeeding year property tax	-	98,247	98,247
Fund balances:			
Restricted for:			
School infrastructure	496,308	-	496,308
Debt service	164,044	-	164,044
Physical plant and equipment	-	66,904	66,904
Total fund balances	660,352	66,904	727,256
Total liabilities, deferred inflows of resources and fund balances	\$ 661,352	167,305	828,657

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	92,169	92,169
Other	10,773	2,850	13,623
State sources	486,218	35	486,253
Total revenues	496,991	95,054	592,045
Expenditures:			
Current:			
Support services:			
Instructional staff	-	68,934	68,934
Administration	3,700	-	3,700
Operation and maintenance of plant	-	6,200	6,200
Capital outlay	147,066	33,472	180,538
Total expenditures	150,766	108,606	259,372
Excess(Deficiency) of revenues over(under) expenditures	346,225	(13,552)	332,673
Other financing uses:			
Transfer out	(271,803)	-	(271,803)
Change in fund balances	74,422	(13,552)	60,870
Fund balances beginning of year	585,930	80,456	666,386
Fund balances end of year	\$ 660,352	66,904	727,256

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Miscellaneous	\$ 1,754	59	1,254	559
HS Drama	948	626	793	781
MS Drama	3,416	-	890	2,526
HS Vocal	151	-	23	128
HS Instrumental Music	213	6,509	4,577	2,145
MS Instrumental Music	1,034	-	1,034	-
MS Cheerleading	571	-	-	571
MS Fundraiser	7,143	7,823	5,478	9,488
MS Library Club	2,308	-	1,567	741
Class of 2013	381	-	-	381
Class of 2014	8,664	-	6,950	1,714
Class of 2015	74	8,002	6,140	1,936
Class of 2016	708	822	200	1,330
Class of 2017	431	684	196	919
5-6 Loop Fund	273	-	-	273
MS Concessions	1,250	-	-	1,250
Elementary Activity	3,207	7,541	5,837	4,911
HS Athletics	164	29,639	17,809	11,994
HS Football	-	2,794	2,082	712
HS Volleyball	827	2,354	2,437	744
HS Softball	420	1,600	1,363	657
HS Girls Basketball	-	1,305	942	363
HS Boys Basketball	474	-	-	474
HS Baseball	1,131	427	36	1,522
HS Wrestling	506	1,679	1,710	475
HS Track	-	1,138	898	240
HS Boys Golf	-	257	-	257
MS Boys Basketball	1,594	-	-	1,594
MS Football	729	-	-	729
MS Wrestling	200	-	-	200
MS Basketball	2,578	-	1,010	1,568
MS Volleyball	156	345	-	501
MS Girls Track	1,126	150	180	1,096
National Honor Society	70	3,055	2,232	893
Dance Team	58	-	-	58
HS Yearbook	1,621	4,480	5,548	553
Art Club	89	-	-	89
HS Concessions	10,742	7,405	7,927	10,220
Panther Den	603	-	-	603
HS Cheerleading	-	1,804	1,522	282
FCCLA	4,155	8,726	7,794	5,087
HOSA	370	-	-	370
HS Library Club	354	-	84	270
HS Weight Club	204	-	-	204
Chantry Music Revolving	347	-	-	347
FFA	40	10,641	3,713	6,968
HS Student Council	47	270	134	183
Chantry Reading	-	183	-	183
Chantry Library	731	6,341	4,374	2,698
HS Activity	23,762	34,476	40,774	17,464
HS Library	203	-	-	203
Total	\$ 85,827	151,135	137,508	99,454

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 1,969	-	-	1,969
Liabilities				
Due to other groups	\$ 1,969	-	-	1,969

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MILLS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST THREE YEARS

	Modified Accrual Basis		
	Year Ended June 30,		
	2014	2013	2012
Revenues:			
Local sources:			
Local tax	\$ 3,846,639	4,485,255	4,325,883
Tuition	183,084	157,122	149,275
Other	296,915	289,496	299,955
Intermediate sources	-	400	-
State sources	3,142,627	2,719,434	3,048,396
Federal sources	160,990	171,846	181,079
Total	<u>\$ 7,630,255</u>	<u>7,823,553</u>	<u>8,004,588</u>
Expenditures:			
Instruction:			
Regular	\$ 2,902,100	2,682,385	3,253,652
Special	726,231	844,529	911,947
Other	562,220	614,092	677,907
Support services:			
Student	69,217	56,640	67,499
Instructional staff	116,859	160,641	331,117
Administration	517,479	649,347	723,824
Operation and maintenance of plant	541,964	682,790	668,001
Transportation	364,218	384,305	442,967
Other			
Capital outlay	180,538	99,401	146,259
Long Term Debt:			
Principal	2,167,349	303,946	190,000
Interest and fiscal charges	182,411	195,201	191,342
Other expenditures:			
AEA flow-through	225,209	217,626	214,462
Total	<u>\$ 8,555,795</u>	<u>6,890,903</u>	<u>7,818,977</u>

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 East Mills Community School District:

We have audited in accordance with U.S. generally accepted auditing standard and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Mills Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 6, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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

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

Compliance and Other Matters

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

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

East Mills Community School District's Responses to the Findings

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

Purpose of this Report

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

February 6, 2015
Newton Iowa

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

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-14 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing in general, receipting, investing, disbursement journalizing, payroll preparation and bank reconciling. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

- 1) Cash - bank reconciliations, cash receipts and the disbursement function.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Wire transfers - initiating, processing and approving.
- 5) Receipting - money collection, deposit preparation, depositing recording posting and reconciling.
- 6) Payroll - 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 - writing, posting and approval.

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

Response - The District has been working on segregating duties where possible. With two people in the central office several of the listed duties are shared, but we will continue to work on segregating duties.

Conclusion - Response accepted.

I-B-14 Supporting Documentation for Payments - During our fieldwork, we noted a purchase from the District credit card for \$1,695 that did not have a supporting invoice or any other documentation to support the payment.

Recommendation - The District should review its procedures to ensure that all payments have supporting documentation to support the purchase.

Response - The District will review our procedures with staff to make sure we have supporting invoices with all payments.

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 exceeded the amounts budgeted in the instructional and the non-instructional program functional areas.

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

Response - We are running a monthly report to compare expenditures to the published budget to assure we don't overspend.

Conclusion - Response accepted.

II-B-14 Questionable Disbursements - We noted a purchase for a pay-per-view television service at the Marriott Hotel in Des Moines, IA. Pay-per-view television services does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to District practices to ensure that District expenditures meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Response - Unauthorized hotel charges will be charged to the person who made them. The Activities Director will review procedures with coaches.

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 - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Phyllis Paulsen, Teacher Husband owns Dwayne Paulsen Electric	Supplies/Services	\$4,806

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

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

II-F-14 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-14 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Iowa Department of Education. The number of resident students which were reported was overstated by 1.0 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and the Department of Management on behalf of the District to resolve the variance in certified enrollment.

Conclusion - Response accepted.

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

II-I-14 Deposits and Investments - The District's investment policy does appear to comply with Chapter 12B and Chapter 12C of the Code of Iowa.

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 being used to supplant rather than supplement other funds.

II-L-14 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued. Once checks have been outstanding for two years, the checks should be submitted to the Treasurer of Iowa as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st.

Response - The District will follow our auditor's recommendation.

Conclusion - Response accepted.

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

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

Beginning balance		\$ 585,930
Revenues:		
Sales tax revenues	\$ 486,218	
Other local revenues	10,773	496,991
		<u>1,082,921</u>
Expenditures/ transfers out:		
School infrastructure construction	\$ 133,450	
Equipment	13,616	
Other	3,700	
Transfers to other funds:		
Debt service fund	271,803	422,569
		<u>422,569</u>
Ending balance		<u>\$ 660,352</u>

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

	<u>Rate of Levy Reduction Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars Reduced</u>
Debt service levy	<u>\$ 0.38</u>	<u>\$ 50,000</u>

II-N-14 Payroll Procedures - We noted during our audit that an employee officiated athletic events was paid from accounts payable rather than correctly ran through payroll.

Recommendation - According to IRS publication 15, payments for supplemental wages are subject to income, social security, Medicare and FUTA taxes. Per the 2013 Student Activity Fund Q & A issued by the Auditor of State “additional payments to employees of a district who provide additional services to the district should be handled through the district’s regular payroll process and reported as wages on the employee’s W-2.”

Response - This recommendation has already been put into practice. All employees are paid only through payroll.

Conclusion - Response accepted.

II-O-14 Student Activity Fund - During our audit issues arose about the properness of certain receipts recorded in the Student Activity Fund. In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District’s educational program. More specific examples of questioned revenues are as follows:

Rental Revenue: We noted that revenue received from the rental of the District gymnasium was receipted into the Student Activity Fund. We also noted that the District received rental income from the Iowa High School Athletic Association for hosting a District golf event.

Recommendation - According to Chapter 298A.2 of the Code of Iowa all money received by a District must be accounted for in the General Fund except for money required by law to be accounted for in another fund. Rental of District property is not

identified as allowable revenue for the Student Activity Fund, therefore rental income should be received into the General Fund.

Response - The District will follow our auditor's recommendation.

Conclusion - Response accepted.

Questionable Accounts: We noted a Chantry Library, NV Elementary Library Club, HS Library Club, Hs Library and a Chantry Reading accounts in the Student Activity Fund. These accounts appear to be used for library books, bookfairs and other library supplies. These accounts do not appear to be cocurricular or extracurricular in nature and appear to be more appropriately accounted for in the General Fund.

Recommendation - The District should transfer the residual funds for these accounts to the General Fund. Instructional revenues and expenditures are more appropriately accounted for in the General Fund.

Response - This recommendation has already been put into practice. These accounts have been transferred to the General Fund.

Conclusion - Response accepted.

Fieldtrips: We noted that the District paid for multiple field trips that were taken as part of the instructional curriculum from the Student Activity Fund.

Recommendation - Field trips that are part of the instructional curriculum and held during an instructional day counted towards the District's 180 days of instruction should be accounted for in the General Fund.

Response - Field trips that are taken as part of the instructional day will be paid for out of the General Fund.

Conclusion - Response accepted.

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

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

Response - The balance from the Class of 2013 was board approved to be reallocated to the Athletics account in the Activity Fund.

Conclusion - Response accepted.