

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

Table of Contents

Board of Education and School District Officials	1	
Independent Auditor's Report	2-3	
Management's Discussion and Analysis (MD&A)	4-14	
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Position	15	
Statement of Activities.....	16	
Governmental Fund Financial Statements		
Balance Sheet.....	17	
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	18	
Statement of Revenue, Expenditures and Changes in Fund Balances.....	19	
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statements of Activities.....	20	
Proprietary Fund Financial Statements		
Statement of Net Position	21	
Statement of Revenue, Expenses and Changes in Net Position	22	
Statement of Cash Flows	23	
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Position	24	
Statement of Changes in Fiduciary Net Position	25	
Notes to the Financial Statements	26-42	
Required Supplementary Information		
Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund	43	
Schedule of Funding Progress for the Retiree Health Plan	44	
Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet.....	45	
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	46	
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	47	
Capital Projects Accounts		
Combining Balance Sheet.....	48	
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	49	
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	50	
Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)	51	
Schedule of Expenditures of Federal Awards	52-53	
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		54-55
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133		56-57
Schedule of Findings and Questioned Costs		58-60

Introductory Section

Board of Education and School District Officials

As of June 30, 2014

Name	Title	Term Expires
Board of Education		
(Before September 30, 2013 Election)		
Board of Education		
Timothy Becker	President	September, 2013
Michele Appelgate	Member	September, 2013
Gary Hoffman	Member	September, 2013
Darshini Jayawardena	Member	September, 2015
Paula Recinos	Member	September, 2015
Scott Warren	Member	September, 2015
Robert Thoms	Member	September, 2013
Board of Education		
(After September 30, 2013 Election)		
Robert Thoms	President	September, 2017
Timothy Becker	Vice President	September, 2017
Janna Arndt	Member	September, 2017
Mark Dodd	Member	September, 2017
Darshini Jayawardena	Member	September, 2015
Paula Recinos	Member	September, 2015
Scott Warren	Member	September, 2015
School Officials		
Dr. Anita Micich	Superintendent	Indefinite
Ramona Jeffrey	District Secretary/Treasurer	Indefinite

Financial Section

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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 14 and 43 and 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mason City Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 45 through 53, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 2014 on our consideration of the Mason City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 22, 2014

**MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

2014 FINANCIAL HIGHLIGHTS

General Fund revenue decreased from \$39,199,008 in fiscal year 2013 to \$38,393,800 in fiscal year 2014, while General Fund expenditures increased from \$40,906,111 in fiscal year 2013 to \$41,177,021 in fiscal year 2014. This resulted in a decrease of \$2,762,823 (38%) in General Fund balance from \$7,273,623 in fiscal year 2013 to \$4,510,800 in fiscal year 2014.

The decrease in General Fund revenue of \$805,208 was attributable to a decrease in property tax revenue. The increase in expenditures was due primarily to an increase in salary expenditures.

USING THE 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 the Mason City Community School District as a whole and present an overall view of the District's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Mason City Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the Mason City Community School District acts solely as an agent or custodian for the benefit of those outside 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. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the District.

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

FIGURE A-1

**MASON CITY COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT**

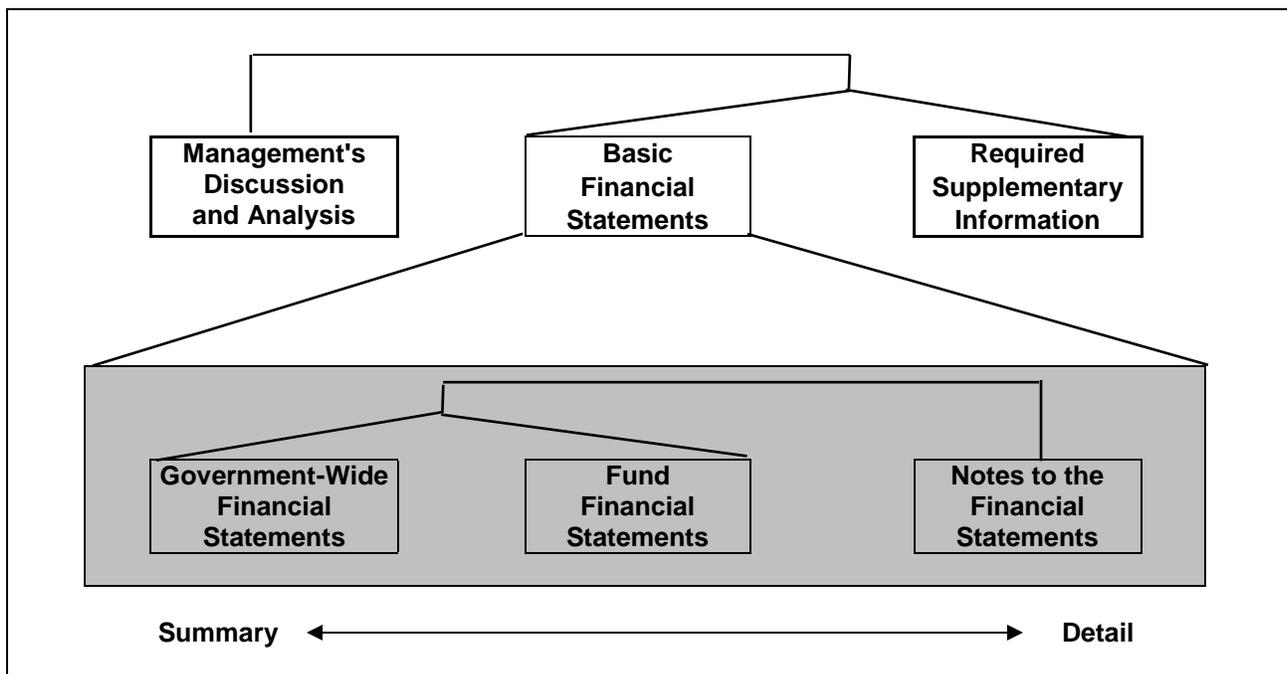


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

FIGURE A-2				
MAJOR FEATURES OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and internal services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and agency monies
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 revenue, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenue, expenses and changes in 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, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenue and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide 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 revenue and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements.

The District's enterprise fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. Internal service funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one internal service fund, the Self Insurance Fund.

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

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

Private Purpose Trust Funds - The District accounts for outside donations for scholarships for individual students in these funds.

Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET POSITION

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 55,294,093	\$ 58,666,272	\$ 603,526	\$ 594,823	\$ 55,897,619	\$ 59,261,095
Capital assets	65,612,908	65,676,647	916,711	1,030,119	66,529,619	66,706,766
TOTAL ASSETS	\$ 120,907,001	\$ 124,342,919	\$ 1,520,237	\$ 1,624,942	\$ 122,427,238	\$ 125,967,861
Long-term liabilities	\$ 36,040,392	\$ 38,854,051	\$ —	\$ —	\$ 36,040,392	\$ 38,854,051
Other liabilities	6,431,010	7,466,079	44,547	54,001	6,475,557	7,520,080
TOTAL LIABILITIES	\$ 42,471,402	\$ 46,320,130	\$ 44,547	\$ 54,001	\$ 42,515,949	\$ 46,374,131
DEFERRED INFLOWS OF RESOURCES	\$ 15,511,242	\$ 13,299,244	\$ —	\$ —	\$ 15,511,242	\$ 13,299,244
Net Position:						
Net investment in capital assets	\$ 30,492,908	\$ 27,426,647	\$ 916,711	\$ 1,030,119	\$ 31,409,619	\$ 28,456,766
Restricted	24,318,336	26,810,421	—	—	24,318,336	26,810,421
Unrestricted	8,113,113	10,486,477	558,979	540,822	8,672,092	11,027,299
TOTAL NET POSITION	\$ 62,924,357	\$ 64,723,545	\$ 1,475,690	\$ 1,570,941	\$ 64,400,047	\$ 66,294,486

The District's combined net position decreased 2.9%, or approximately \$1.9 million, from the prior year. The largest portion of the District's net position is investment in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased approximately \$2.5 million, or 9.3% from the prior year. The decrease was primarily a result of paying off long-term debt.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, decreased approximately \$2.4 million, or 21.4%. This decrease in unrestricted net position was primarily a result of a decrease in revenue due to decreased property tax levies and statewide sales, services and use tax allocations.

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

FIGURE A-4

**MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET POSITION**

	Governmental Activities		Business-Type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-2014
REVENUE:							
Program Revenue:							
Charges for service	\$ 3,494,691	\$ 3,516,364	\$ 822,747	\$ 792,950	\$ 4,317,438	\$ 4,309,314	\$ 8,124
Operating grants and contributions	6,295,112	5,837,006	1,304,387	1,193,139	7,599,499	7,030,145	569,354
Capital grants and contributions	1,224,923	598,779	—	—	1,224,923	598,779	626,144
General Revenue:							
Property tax	12,690,127	14,927,417	—	—	12,690,127	14,927,417	(2,237,290)
Statewide sales, services and use tax	3,056,376	5,076,050	—	—	3,056,376	5,076,050	(2,019,674)
Unrestricted state grants	17,274,016	17,178,426	—	—	17,274,016	17,178,426	95,590
Unrestricted investment earnings	95,912	131,108	1,059	1,089	96,971	132,197	(35,226)
Other	463,743	324,417	—	—	463,743	324,417	139,326
TOTAL REVENUE	44,594,900	47,589,567	2,128,193	1,987,178	46,723,093	49,576,745	(2,853,652)
PROGRAM EXPENSES:							
Instruction	31,082,373	31,128,560	—	—	31,082,373	31,128,560	(46,187)
Support services	11,957,532	11,551,458	—	—	11,957,532	11,551,458	406,074
Noninstructional programs	—	—	2,223,444	2,227,306	2,223,444	2,227,306	(3,862)
Other expenses	3,354,183	3,213,038	—	—	3,354,183	3,213,038	141,145
TOTAL EXPENSES	46,394,088	45,893,056	2,223,444	2,227,306	48,617,532	48,120,362	497,170
CHANGE IN NET POSITION	\$ (1,799,188)	\$ 1,696,511	\$ (95,251)	\$ (240,128)	\$ (1,894,439)	\$ 1,456,383	\$ (3,350,822)

In fiscal year 2014, property tax, statewide sales, services and use tax and unrestricted state grants account for approximately 71% of total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 89% of the total expenses.

The District's total revenue was approximately \$46.7 million, of which approximately \$44.6 million was for governmental activities and \$2.1 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 5.8% decrease in revenue and a 1.0% increase in expenses. Capital grants and contributions increased approximately \$626,000 due to donations of seating, stage lighting and other equipment to complete the Mohawk Performance Hall.

Governmental Activities

Revenue for governmental activities were \$44,594,900 and expenses were \$46,394,088, which amounted to a decrease in net position of \$1,799,188. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, noninstructional programs and other expenses.

FIGURE A-5
MASON CITY COMMUNITY SCHOOL DISTRICT
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	\$ 31,082,373	\$ 31,128,560	0.2%	\$ 23,270,339	\$ 22,879,345	1.7 %
Support services	11,957,532	11,551,458	3.5%	11,637,171	11,461,255	1.5 %
Other expenses	<u>3,354,183</u>	<u>3,213,038</u>	<u>4.4%</u>	<u>471,852</u>	<u>1,600,307</u>	<u>(70.5)%</u>
TOTALS	<u>\$ 46,394,088</u>	<u>\$ 45,893,056</u>	<u>1.1%</u>	<u>\$ 35,379,362</u>	<u>\$ 35,940,907</u>	<u>(1.6)%</u>

- The cost financed by users of the District's programs was \$3,494,691.
- Federal and state governments subsidized certain programs with operating grants and contributions totaling \$6,295,112 and capital grants and contributions totaling \$1,224,923.
- The net cost of governmental activities was financed with \$15,746,503 in property and other taxes, \$17,274,016 in unrestricted state grants and \$95,912 in interest income.

Business-Type Activities

Revenue of the District's business-type activities was \$2,128,193, representing a 7.1% increase from the prior year and expenses were \$2,223,444, a decrease of 0.2% from the prior year. The District's business-type activities include the School Nutrition Fund. Revenue from these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Individual Fund Analysis

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$28,403,991, a decrease from last year's ending fund balances of \$33,306,237. The main reason for the decrease in combined fund balances in fiscal year 2014 was due to the continued decrease in student enrollment and funding resources along with the decrease in property tax revenue while staffing and expenditure needs increased due to negotiated salaries and benefits and additional student bus routes.

The District repaid approximately \$3.0 million of long-term debt which largely accounts for the decrease in the Debt Service Fund balance.

Governmental Fund Highlights

The current year significant decrease in regular instruction expenditures was due to a reduction in purchasing of instructional textbooks and instructional software. Vocational instruction expenditures increased due to the addition of more classes and supplies needed to fully implement Project Lead the Way (PLTW) and STEM coursework.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$1,570,941 in fiscal year 2013 to \$1,475,690 in fiscal year 2014, a decrease of \$95,251, or approximately 6.1%. Total revenue in fiscal year 2014 was \$2,128,193 which is an increase of \$141,015 from \$1,987,178 in fiscal year 2013. Total expenses for fiscal year 2014 were \$2,223,444 and in fiscal year 2013 they were \$2,227,306 for a decrease of \$3,862, or approximately 0.2%.

The District has been required by federal regulations to increase the price of school breakfast and lunch for students and staff by \$0.10 per year. This increase was required because full pay lunches are not being subsidized by the federal government through the free and reduced lunch reimbursement program.

In addition, in fiscal year 2014, the investment in capital assets declined by approximately \$113,400 due to depreciation of capital assets of all new equipment in the John Adams Middle School Cafeteria and the Mason City High School Cafeteria.

The Mason City and Clear Lake Community School Districts submitted one Invitation for Bid (IFB) to all cafeteria vendors in order to secure a primary vendor for both Districts' food and nonfood expendable supplies in compliance with the new federal regulations. Also, the new federal regulations require more fresh fruits and vegetables, especially the dark greens, reds and oranges; resulting in a substantial increase in food costs. What was the standard cost of \$21 per case increased to \$35 per case. The Healthy Kids Act new state regulations have restricted the a la carte sales for the District resulting in very limited items that can be sold resulting in lower revenue at the high school level. The District is no longer able to provide food for various special functions due to the federal regulations resulting in a decrease in revenue of approximately \$25,000 per year.

Budgetary Highlights

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 its internal service, private purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were \$922,650 more than the total budgeted receipts; a variance of 2%. Local sources were less than budgeted and state sources more than budgeted due to a reclassification of the statewide sales, services and use tax from local revenue to state revenue after the budget was approved.

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 the actual expenditures during the year. The District's total actual expenditures were \$51,097,175 compared to the budget amount of \$63,693,099 or a difference of \$12,595,924, which is a 19.8% variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the District had invested \$66,529,619, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net decrease of 0.3% from the prior year. Depreciation expense was \$2,208,469 for Governmental Activities and \$113,408 for Business-Type Activities. Additional information about the District's capital assets is presented in Note 5 to the financial statements.

Governmental Activities account for \$65,612,908 of the District's capital assets with the remainder of \$916,711 in the Business-Type Activities.

The largest change in capital asset activity during the year occurred in construction in progress because approximately \$8.8 million was completed during fiscal year 2014 at the Mason City High School/John Adams Middle School Campus and converted to buildings and improvements.

FIGURE A-6

**MASON CITY COMMUNITY SCHOOL DISTRICT
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Change 2013-2014
	2014	2013	2014	2013	2014	2013	
Land	\$ 315,602	\$ 315,602	\$ —	\$ —	\$ 315,602	\$ 315,602	0.0 %
Construction in progress	590,182	8,183,052	—	—	590,182	8,183,052	(92.8)%
Buildings and improvements	64,208,186	56,530,798	—	—	64,208,186	56,530,798	13.6 %
Furniture and equipment	<u>498,938</u>	<u>647,195</u>	<u>916,711</u>	<u>1,030,119</u>	<u>1,415,649</u>	<u>1,677,314</u>	<u>(15.6)%</u>
TOTALS	<u>\$ 65,612,908</u>	<u>\$ 65,676,647</u>	<u>\$ 916,711</u>	<u>\$ 1,030,119</u>	<u>\$ 66,529,619</u>	<u>\$ 66,706,766</u>	<u>(0.3)%</u>

Long-Term Debt

As of June 30, 2014, the District had \$35,120,000 in revenue bonds outstanding. The District retired debt in the amount of \$3,130,000 and issued no new debt during the year ended June 30, 2014. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

On July 1, 2013, all debt related to the Roosevelt Campus was paid in full. The only debt outstanding was on the new construction and renovation at the Mason City High School/John Adams Middle School Campus.

FIGURE A-7

**MASON CITY COMMUNITY SCHOOL DISTRICT
OUTSTANDING LONG-TERM OBLIGATIONS**

	Total District June 30, 2014	Total District June 30, 2013	Total Change 2013-2014	Debt Retired June 30, 2014
REVENUE BONDS	<u>\$ 35,120,000</u>	<u>\$ 38,250,000</u>	<u>(8.2)%</u>	<u>\$ 3,130,000</u>

CONSTRUCTION SUMMARY

In school year 2012-2013, the District was in the completion phase of the \$37 million construction project at the Mason City High School/John Adams Middle School Campus. The 8th grade students were located in the annex, 7th graders were at Madison Elementary and part of the high school students were in the newly renovated John Adams Middle School while the second floor of the Mason City High School was being renovated. The following summer months were used to transition all students back to original locations and when the 2013-2014 school year started, the transition was complete.

The Phase 6A construction project was started during the 2013-2014 school year which included renovation of the Mason City High School one story which includes the classrooms from the Commons Area east to the gymnasium. Phase 6A construction is scheduled to be completed by December 31, 2014. Phase 6B construction is expected to start in May of 2015.

Also completed in the summer of 2014 was the four new safe and secure elementary entrances located at Harding Elementary School, Hoover Elementary School, Jefferson Elementary School and Roosevelt Elementary School.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has experienced a decline in student enrollment over the past 40 years which has significantly reduced funding resources for the District while the expenditures for staffing requirements have continually increased. The state legislature has underfunded public school education over the past ten years by across-the-board budget cuts and continually setting allowable growth rates at 0%, 1% and 2% which has required all school districts to use their cash reserves and fund balance to fund expenditures. Mason City Community Schools will have to continually look for ways to reduce expenditures by staff reductions, sharing agreements with other school districts and/or looking at the programs and courses being offered.

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 Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Position

As of June 30, 2014

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 37,213,465	\$ 540,163	\$ 37,753,628
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent	141,423	—	141,423
Succeeding year	15,203,594	—	15,203,594
Accrued interest	5,173	—	5,173
Other	538,059	—	538,059
Internal balances	(16,608)	—	(16,608)
Due from other governments	1,947,025	5,147	1,952,172
Inventories and prepaid expenses	30,184	58,216	88,400
Capital assets, net of accumulated depreciation	65,612,908	916,711	66,529,619
Restricted Assets			
Cash held by agent	231,778	—	231,778
Total Assets	\$ 120,907,001	\$ 1,520,237	\$ 122,427,238
Liabilities			
Accounts payable	\$ 1,201,518	\$ 8,993	\$ 1,210,511
Salaries and benefits payable	4,290,828	35,554	4,326,382
Advances from grantors	5,299	—	5,299
Accrued interest payable	346,610	—	346,610
Retainage payable	15,189	—	15,189
Provision for self-insurance claims	571,566	—	571,566
Long-Term Liabilities			
Portion Due Within One Year			
Revenue bonds, net of unamortized discount	779,967	—	779,967
Compensated absences	307,691	—	307,691
Early retirement	304,955	—	304,955
Portion Due After One Year			
Revenue bonds, net of unamortized discounts	34,058,779	—	34,058,779
Net OPEB liability	589,000	—	589,000
Total Liabilities	42,471,402	44,547	42,515,949
Deferred Inflows of Resources			
Unavailable Revenue			
Succeeding year property tax	15,203,594	—	15,203,594
Other	307,648	—	307,648
Total Deferred Inflows of Resources.	15,511,242	—	15,511,242
Net Position			
Net investment in capital assets	30,492,908	916,711	31,409,619
Restricted for			
Categorical funding	392,414	—	392,414
Debt service	4,418,611	—	4,418,611
Management levy purposes	3,123,647	—	3,123,647
Physical plant and equipment	3,295,683	—	3,295,683
Student activities	240,866	—	240,866
School infrastructure	12,749,028	—	12,749,028
Other special revenue purposes	98,087	—	98,087
Unrestricted	8,113,113	558,979	8,672,092
Total Net Position	62,924,357	1,475,690	64,400,047
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 120,907,001	\$ 1,520,237	\$ 122,427,238

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2014

Functions/Programs	Expenses
Governmental Activities	
Instruction	
Regular	\$ 16,328,497
Special	9,501,164
Vocational	642,772
Co-curricular	4,609,940
Total Instruction.....	<u>31,082,373</u>
Support Services	
Student	1,140,943
Instructional staff.....	1,248,929
Administration	3,941,969
Operation and maintenance of plant	3,201,698
Transportation.....	1,629,413
Community.....	9,950
Other support.....	784,630
Total Support Services	<u>11,957,532</u>
Other Expenditures	
Facilities acquisition	796,260
Long-term debt interest and fiscal charges.....	891,921
AEA flowthrough	1,657,408
Depreciation - unallocated*	8,594
Total Other Expenditures	<u>3,354,183</u>
Total Governmental Activities.....	46,394,088
Business-Type Activities	
Noninstructional Programs	
Food service operations.....	<u>2,223,444</u>
Total	<u>\$ 48,617,532</u>
General Revenue	
Property Tax Levied for	
General purposes.....	
Management.....	
PPEL.....	
Statewide sales, services and use tax	
Unrestricted state grants	
Other	
Gain on sale of assets.....	
Unrestricted investment earnings	
Total General Revenue	
Change in Net Position	
Net Position - Beginning of Year.....	
Net Position - End of Year.....	

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

See accompanying notes to the financial statements.

Program Revenue			Net (Expenses) Revenue and Changes in Net Position		
Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
\$ 939,053	\$ 4,298,070	\$ —	\$ (11,091,374)	\$ —	\$ (11,091,374)
1,569,096	241,302	—	(7,690,766)	—	(7,690,766)
—	29,151	—	(613,621)	—	(613,621)
735,362	—	—	(3,874,578)	—	(3,874,578)
<u>3,243,511</u>	<u>4,568,523</u>	<u>—</u>	<u>(23,270,339)</u>	<u>—</u>	<u>(23,270,339)</u>
—	—	—	(1,140,943)	—	(1,140,943)
—	69,181	—	(1,179,748)	—	(1,179,748)
57,542	—	—	(3,884,427)	—	(3,884,427)
—	—	—	(3,201,698)	—	(3,201,698)
193,638	—	—	(1,435,775)	—	(1,435,775)
—	—	—	(9,950)	—	(9,950)
—	—	—	(784,630)	—	(784,630)
<u>251,180</u>	<u>69,181</u>	<u>—</u>	<u>(11,637,171)</u>	<u>—</u>	<u>(11,637,171)</u>
—	—	1,224,923	428,663	—	428,663
—	—	—	(891,921)	—	(891,921)
—	1,657,408	—	—	—	—
—	—	—	(8,594)	—	(8,594)
<u>—</u>	<u>1,657,408</u>	<u>1,224,923</u>	<u>(471,852)</u>	<u>—</u>	<u>(471,852)</u>
3,494,691	6,295,112	1,224,923	(35,379,362)	—	(35,379,362)
<u>822,747</u>	<u>1,304,387</u>	<u>—</u>	<u>—</u>	<u>(96,310)</u>	<u>(96,310)</u>
<u>\$ 4,317,438</u>	<u>\$ 7,599,499</u>	<u>\$ 1,224,923</u>	<u>(35,379,362)</u>	<u>(96,310)</u>	<u>(35,475,672)</u>
			11,794,022	—	11,794,022
			500,701	—	500,701
			395,404	—	395,404
			3,056,376	—	3,056,376
			17,274,016	—	17,274,016
			444,852	—	444,852
			18,891	—	18,891
			95,912	1,059	96,971
			<u>33,580,174</u>	<u>1,059</u>	<u>33,581,233</u>
			(1,799,188)	(95,251)	(1,894,439)
			<u>64,723,545</u>	<u>1,570,941</u>	<u>66,294,486</u>
			<u>\$ 62,924,357</u>	<u>\$ 1,475,690</u>	<u>\$ 64,400,047</u>

Balance Sheet - Governmental Funds

As of June 30, 2014

	General	Capital Projects	Nonmajor	Total
Assets				
Cash and pooled investments.....	\$ 7,890,661	\$ 15,910,959	\$ 7,975,091	\$ 31,776,711
Receivables, Net of Allowance for Uncollectible Amounts				
Property Tax				
Current year delinquent	159,503	5,249	6,772	171,524
Succeeding year	13,003,060	1,200,537	999,997	15,203,594
Accrued interest	—	5,173	—	5,173
Other	352,520	19,748	41,474	413,742
Due from other funds	96,744	—	107	96,851
Due from other governments	1,429,629	515,966	1,430	1,947,025
Inventories and prepaid items.....	30,184	—	—	30,184
Restricted Assets				
Cash held by agent.....	—	—	231,778	231,778
Total Assets	<u>\$ 22,962,301</u>	<u>\$ 17,657,632</u>	<u>\$ 9,256,649</u>	<u>\$ 49,876,582</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable.....	\$ 816,680	\$ 372,935	\$ 11,903	\$ 1,201,518
Salaries and benefits payable.....	4,290,828	—	—	4,290,828
Retainage payable	—	15,189	—	15,189
Advances from grantors.....	5,299	—	—	5,299
Due to other funds.....	—	23,333	90,126	113,459
Early retirement payable	—	—	304,955	304,955
Total Liabilities	<u>5,112,807</u>	<u>411,457</u>	<u>406,984</u>	<u>5,931,248</u>
Deferred Inflows of Resources				
Unavailable Revenue				
Succeeding year property tax	13,003,060	1,200,537	999,997	15,203,594
Other	335,634	927	1,188	337,749
Total Deferred Inflows of Resources ..	<u>13,338,694</u>	<u>1,201,464</u>	<u>1,001,185</u>	<u>15,541,343</u>
Fund Balances				
Nonspendable				
Inventories and prepaid items.....	30,184	—	—	30,184
Restricted for				
Categorical funding	392,414	—	—	392,414
Debt service	—	—	4,483,967	4,483,967
Management levy purposes.....	—	—	3,123,647	3,123,647
Student activities.....	—	—	240,866	240,866
School infrastructure.....	—	12,749,028	—	12,749,028
Physical plant and equipment.....	—	3,295,683	—	3,295,683
Assigned for				
Adopt-A-School.....	32,196	—	—	32,196
Other	5,414	—	—	5,414
Unassigned	4,050,592	—	—	4,050,592
Total Fund Balances	<u>4,510,800</u>	<u>16,044,711</u>	<u>7,848,480</u>	<u>28,403,991</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 22,962,301</u>	<u>\$ 17,657,632</u>	<u>\$ 9,256,649</u>	<u>\$ 49,876,582</u>

See accompanying notes to the financial statements.

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

As of June 30, 2014

Total Fund Balances for Governmental Funds (Page 17)....		\$ 28,403,991
 <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.....		65,612,908
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		4,989,505
Long-term liabilities, including bonds payable, unamortized bond discounts, accrued interest payable, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Accrued interest payable	\$ (346,610)	
Revenue bonds	(35,120,000)	
Unamortized bond discounts	281,254	
Compensated absences.....	(307,691)	
Net OPEB liability	<u>(589,000)</u>	<u>(36,082,047)</u>
 Net Position of Governmental Activities (Page 15)		 <u>\$ 62,924,357</u>

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

Year Ended June 30, 2014

	General	Capital Projects	Nonmajor	Total
Revenue				
Local Sources				
Local tax.....	\$ 11,794,022	\$ 395,404	\$ 500,701	\$ 12,690,127
Tuition	2,170,031	—	—	2,170,031
Other	769,591	275,371	722,227	1,767,189
State sources	22,209,918	3,056,654	6,930	25,273,502
Federal sources	1,450,238	600,000	—	2,050,238
Total Revenue	<u>38,393,800</u>	<u>4,327,429</u>	<u>1,229,858</u>	<u>43,951,087</u>
Expenditures				
Current				
Instruction				
Regular	14,571,177	—	—	14,571,177
Special.....	9,538,238	—	—	9,538,238
Vocational.....	646,304	—	—	646,304
Co-curricular.....	3,721,460	—	757,113	4,478,573
Total Instruction	<u>28,477,179</u>	<u>—</u>	<u>757,113</u>	<u>29,234,292</u>
Support Services				
Student	1,099,246	—	—	1,099,246
Instructional staff	1,255,924	—	—	1,255,924
Administration	3,907,320	—	—	3,907,320
Operation and maintenance of plant.....	3,158,122	17,905	—	3,176,027
Transportation	1,611,872	—	—	1,611,872
Community	9,950	—	—	9,950
Other support	—	—	784,630	784,630
Total Support Services	<u>11,042,434</u>	<u>17,905</u>	<u>784,630</u>	<u>11,844,969</u>
Other Expenditures				
Facilities acquisition.....	—	2,280,932	—	2,280,932
Long-Term Debt				
Principal.....	—	—	3,130,000	3,130,000
Interest and fiscal charges	—	360	725,770	726,130
AEA flowthrough	1,657,408	—	—	1,657,408
Total Other Expenditures.....	<u>1,657,408</u>	<u>2,281,292</u>	<u>3,855,770</u>	<u>7,794,470</u>
Total Expenditures	<u>41,177,021</u>	<u>2,299,197</u>	<u>5,397,513</u>	<u>48,873,731</u>
Revenue Over (Under) Expenditures	<u>(2,783,221)</u>	<u>2,028,232</u>	<u>(4,167,655)</u>	<u>(4,922,644)</u>
Other Financing Sources (Uses)				
Proceeds from sale of assets.....	20,398	—	—	20,398
Operating transfers in.....	—	—	2,179,822	2,179,822
Operating transfers out	—	(2,179,822)	—	(2,179,822)
Total Other Financing Sources (Uses)	<u>20,398</u>	<u>(2,179,822)</u>	<u>2,179,822</u>	<u>20,398</u>
Net Change in Fund Balances	<u>(2,762,823)</u>	<u>(151,590)</u>	<u>(1,987,833)</u>	<u>(4,902,246)</u>
Fund Balances - Beginning of Year	<u>7,273,623</u>	<u>16,196,301</u>	<u>9,836,313</u>	<u>33,306,237</u>
Fund Balances - End of Year	<u>\$ 4,510,800</u>	<u>\$ 16,044,711</u>	<u>\$ 7,848,480</u>	<u>\$ 28,403,991</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities —————

Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds (Page 19) \$ (4,902,246)

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

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

Donated assets from Education Foundation	\$ 624,923	
Capital outlays.....	1,521,314	
Depreciation expense.....	(2,208,469)	
Net book value of assets disposed	(1,507)	(63,739)

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities. 377,311

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. There was no debt issued in the current year.

Repaid 3,130,000

Amortization of discount on bonds payable did not provide current financial resources to governmental funds but it increases liabilities in the statement of net position (20,033)

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..... (145,758)

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:

Compensated absences.....	\$ (92,723)	
Net OPEB liability	(82,000)	(174,723)

Change in Net Position of Governmental Activities (Page 16) \$ (1,799,188)

Statement of Net Position - Proprietary Funds

As of June 30, 2014

	<u>Enterprise</u> <u>School Nutrition</u>	<u>Internal</u> <u>Service</u> <u>Self-Insurance</u>
Assets		
Current Assets		
Cash and cash equivalents.....	\$ 540,163	\$ 5,436,754
Due from others.....	—	124,317
Due from other governments.....	5,147	—
Inventories.....	<u>58,216</u>	<u>—</u>
Total Current Assets.....	<u>603,526</u>	<u>5,561,071</u>
Capital Assets, Net of Accumulated Depreciation.....	<u>916,711</u>	<u>—</u>
Total Assets.....	<u>\$ 1,520,237</u>	<u>\$ 5,561,071</u>
Liabilities and Net Position		
Current Liabilities		
Accounts payable.....	\$ 8,993	\$ 571,566
Salaries and benefits payable.....	<u>35,554</u>	<u>—</u>
Total Current Liabilities.....	<u>44,547</u>	<u>571,566</u>
Net Position		
Investment in capital assets.....	916,711	—
Unrestricted.....	<u>558,979</u>	<u>4,989,505</u>
Total Net Position.....	<u>1,475,690</u>	<u>4,989,505</u>
Total Liabilities and Net Position.....	<u>\$ 1,520,237</u>	<u>\$ 5,561,071</u>

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

Year Ended June 30, 2014

	<u>Enterprise</u> <u>School Nutrition</u>	<u>Internal</u> <u>Service</u> <u>Self-Insurance</u>
Operating Revenue		
Local Sources		
Charges for service	\$ 816,103	\$ —
Other receipts	6,644	—
Self-insurance contributions	<u>—</u>	<u>4,813,441</u>
Total Operating Revenue	<u>822,747</u>	<u>4,813,441</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	995,137	—
Purchased services and supplies	1,114,324	—
Other	575	—
Depreciation	113,408	—
Self-insurance claims and fees	<u>—</u>	<u>4,451,599</u>
Total Operating Expenses	<u>2,223,444</u>	<u>4,451,599</u>
Income (Loss) From Operations	<u>(1,400,697)</u>	<u>361,842</u>
Nonoperating Revenue		
State sources	16,081	—
Federal sources	1,288,306	—
Interest on investments	<u>1,059</u>	<u>15,469</u>
Total Nonoperating Revenue	<u>1,305,446</u>	<u>15,469</u>
Change in Net Position	(95,251)	377,311
Net Position - Beginning of Year	<u>1,570,941</u>	<u>4,612,194</u>
Net Position - End of Year	<u>\$ 1,475,690</u>	<u>\$ 4,989,505</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2014

	<u>Enterprise</u> School Nutrition	<u>Internal</u> Service Self-Insurance
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 822,747	\$ —
Cash received from assessments made to other funds	—	4,689,124
Cash paid to employees for services	(1,000,072)	—
Cash paid for insurance claims.....	—	(4,554,620)
Cash paid to suppliers for goods or services	<u>(1,001,308)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>(1,178,633)</u>	<u>134,504</u>
Cash Flows From Noncapital Financing Activities		
State grants received.....	14,418	—
Federal grants received.....	<u>1,147,177</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,161,595</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>1,059</u>	<u>15,469</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(15,979)	149,973
Cash and Cash Equivalents - Beginning of Year	<u>556,142</u>	<u>5,286,781</u>
Cash and Cash Equivalents - End of Year	<u>\$ 540,163</u>	<u>\$ 5,436,754</u>
Reconciliation of Income (Loss) From Operations to		
Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations.....	\$ (1,400,697)	\$ 361,842
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used	120,967	—
Depreciation.....	113,408	—
Changes in Assets and Liabilities		
Increase in receivables	—	(124,317)
Increase in inventories.....	(2,857)	—
Decrease in accounts payable and provision for self-insurance claims	(4,519)	(103,021)
Decrease in salaries and benefits payable.....	<u>(4,935)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,178,633)</u>	<u>\$ 134,504</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2014, the District received \$141,129 of federal commodities.

Statement of Fiduciary Net Position - Fiduciary Funds

As of June 30, 2014

	Private Purpose Trusts	Agency
Assets		
Cash and pooled investments	\$ 113,679	\$ 22,440
Due from other governments	—	22,797
Due from others.....	500	300
Due from other funds.....	<u>—</u>	<u>22,366</u>
Total Assets	<u>\$ 114,179</u>	<u>\$ 67,903</u>
Liabilities		
Accounts payable	\$ —	\$ 8,644
Due to others.....	—	53,501
Due to other funds.....	<u>—</u>	<u>5,758</u>
Total Liabilities	<u>—</u>	<u>67,903</u>
Net Position		
Restricted for		
Scholarships	108,783	—
Other.....	<u>5,396</u>	<u>—</u>
Total Net Position	<u>114,179</u>	<u>—</u>
Total Liabilities and Net Position	<u>\$ 114,179</u>	<u>\$ 67,903</u>

Statement of Changes in Fiduciary Net Position - Fiduciary Funds —————

Year Ended June 30, 2014

	Private Purpose Trusts
Revenue	
Local Sources	
Gifts and contributions	\$ 25,700
Interest income	<u>313</u>
Total Revenue	<u>26,013</u>
Expenditures	
Instruction	
Regular	
Scholarships awarded	<u>22,250</u>
Change in Net Position	3,763
Net Position - Beginning of Year.....	<u>110,416</u>
Net Position - End of Year	<u>\$ 114,179</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Mason City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

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

Jointly Governed Organization

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 Cerro Gordo County Assessor's Conference Board.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and the statement of activities report information on all the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenue are reported instead as general revenue.

Fund Financial Statements

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

The District reports the following major governmental funds:

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

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

The District's proprietary funds are the School Nutrition Fund used to account for the food service operations of the District and the Internal Service Fund used to account for the self-funded health insurance plan operated by the District.

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

The Private Purpose Trusts 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Assets, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash, Cash Equivalents and Pooled Investments

The cash balances of most District funds are pooled and invested. Investments include nonnegotiable 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, have a maturity date no longer than three months.

Property Tax Receivable

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% per month penalty for delinquent payments; is based on January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014; and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2013.

Due From Other Governments

Due from other governments represents amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. As of June 30, 2014, government commodities valued at \$29,099 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures/expenses are recognized when the inventory is used.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Capital Assets

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

Land.....	\$ 2,000
Buildings	2,000
Improvements other than buildings	2,000
Intangibles.....	100,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment.....	2,000

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

Buildings	50 Years
Improvements other than buildings	25 Years
Furniture and equipment	5 - 10 Years
Intangibles.....	5 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.

Advanced 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 revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consists of property tax receivable and other receivables not collected within 60 days after year end.

Deferred inflows of resources on the statement of net position consists of succeeding year property tax and miscellaneous receivables that will not be recognized as revenue until the year for which it is levied or earned, respectively.

(1) Summary of Significant Accounting Policies

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect as of June 30, 2014. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities

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

Fund Equity

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

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

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

Assigned - Amounts which have been constrained by the Board for specific purposes. The constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed.

Unassigned - All amounts not included in the preceding classifications.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures did not exceed the amounts budgeted.

Estimates and Assumptions

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

Notes to the Financial Statements

(2) Cash, Cash Equivalents and Pooled Investments

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

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

The District's investments as of June 30, 2014 consisted of certificates of deposit at local banks.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2014.

(3) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Special Revenue Student Activities	\$ 90,126
	Capital Projects Agency	967 <u>5,651</u> <u>96,744</u>
Agency	Capital Projects	<u>22,366</u>
Special Revenue Student Activities	Agency	<u>107</u>
Total		<u>\$ 119,217</u>

Notes to the Financial Statements

(4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	<u>\$ 2,179,822</u>

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

(5) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 315,602	\$ —	\$ —	\$ 315,602
Construction in progress	8,183,052	1,220,939	8,813,809	590,182
Total Capital Assets Not Being Depreciated.....	<u>8,498,654</u>	<u>1,220,939</u>	<u>8,813,809</u>	<u>905,784</u>
Capital Assets Being Depreciated				
Buildings and improvements	78,330,258	9,702,465	—	88,032,723
Furniture and equipment	2,919,231	36,642	76,561	2,879,312
Total Capital Assets Being Depreciated.....	<u>81,249,489</u>	<u>9,739,107</u>	<u>76,561</u>	<u>90,912,035</u>
Less Accumulated Depreciation for				
Buildings and improvements	21,799,460	2,025,077	—	23,824,537
Furniture and equipment	2,272,036	183,392	75,054	2,380,374
Total Accumulated Depreciation.....	<u>24,071,496</u>	<u>2,208,469</u>	<u>75,054</u>	<u>26,204,911</u>
Total Capital Assets Being Depreciated, Net	<u>57,177,993</u>	<u>7,530,638</u>	<u>1,507</u>	<u>64,707,124</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 65,676,647</u>	<u>\$ 8,751,577</u>	<u>\$ 8,815,316</u>	<u>\$ 65,612,908</u>
Business-Type Activities				
Furniture and equipment	\$ 1,722,537	\$ —	\$ —	\$ 1,722,537
Less accumulated depreciation	692,418	113,408	—	805,826
Business-Type Activities				
Capital Assets, Net.....	<u>\$ 1,030,119</u>	<u>\$ (113,408)</u>	<u>\$ —</u>	<u>\$ 916,711</u>

Notes to the Financial Statements

(5) Capital Assets

Depreciation expense was charged to the following functions:

Governmental Activities

Instruction	
Regular	\$ 1,855,327
Special	14,250
Co-curricular	151,479
Support Services	
Student.....	48,472
Administration	57,466
Operation and maintenance of plant.....	54,437
Transportation.....	18,444
	<u>2,199,875</u>
Unallocated depreciation.....	8,594
Total Governmental Activities Depreciation Expense	<u>\$ 2,208,469</u>

During the year ended June 30, 2014, the District received donations of \$624,923 from the Education Foundation for the purchase of seating and equipment for the Mohawk Performance Hall. These donations were reported as capital contributions in the accompanying statement of activities.

Business-Type Activities

Food Service Operations.....	<u>\$ 113,408</u>
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(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 38,250,000	\$ —	\$ 3,130,000	\$ 35,120,000	\$ 800,000
Unamortized discount...	(478,345)	—	(197,091)	(281,254)	(20,033)
Compensated absences	214,968	307,691	214,968	307,691	307,691
Early retirement	360,428	304,955	360,428	304,955	304,955
Net OPEB liability	507,000	82,000	—	589,000	—
Total	<u>\$ 38,854,051</u>	<u>\$ 694,646</u>	<u>\$ 3,508,305</u>	<u>\$ 36,040,392</u>	<u>\$ 1,392,613</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

Revenue Bonds

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

	QSCB Bonds Issued July 1, 2010			School Infrastructure Issued June 29, 2011		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
Year Ending June 30,						
2015	0%	\$ —	\$ —	3.00%	\$ 640,000	\$ 561,160
2016	0	—	—	3.00	650,000	541,810
2017	0	—	—	3.00	685,000	521,785
2018	0	—	—	3.00	700,000	501,010
2019	0	—	—	3.00	735,000	479,485
2020-2024	0	—	—	3.25 - 4.20	4,160,000	1,983,806
2025-2029	0	14,540,000	—	4.40 - 5.00	5,260,000	988,386
2030		—	—	5.00	1,270,000	31,750
Total		\$ 14,540,000	\$ —		\$ 14,100,000	\$ 5,609,192

	QSCB Bonds Issued August 9, 2011			School Infrastructure Issued July 12, 2012		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
Year Ending June 30,						
2015	0%	\$ —	\$ —	2.00%	\$ 160,000	\$ 120,860
2016	0	—	—	2.00	170,000	117,560
2017	0	—	—	2.00	160,000	114,260
2018	0	—	—	2.00	170,000	110,960
2019	0	—	—	2.00	150,000	107,760
2020-2024	0	—	—	2.00 - 2.25	750,000	492,375
2025-2029	0	2,000,000	—	2.65 - 3.10	1,730,000	382,985
2030		—	—	3.20	1,190,000	19,040
Total		\$ 2,000,000	\$ —		\$ 4,480,000	\$ 1,465,800

	Total		
	Principal	Interest	Total
Year Ending June 30,			
2015	\$ 800,000	\$ 682,020	\$ 1,482,020
2016	820,000	659,370	1,479,370
2017	845,000	636,045	1,481,045
2018	870,000	611,970	1,481,970
2019	885,000	587,245	1,472,245
2020-2024	4,910,000	2,476,181	7,386,181
2025-2029	23,530,000	1,371,371	24,901,371
2030	2,460,000	50,790	2,510,790
Total	\$ 35,120,000	\$ 7,074,992	\$ 42,194,992

Notes to the Financial Statements

(6) Long-Term Liabilities

The District has pledged future statewide sales, services and use tax revenue to repay revenue bonds issued July 1, 2010, July 28, 2010, June 29, 2011, August 9, 2011 and July 12, 2012. Total principal and interest remaining to be paid on the bonds is \$42,194,992. For the current year, principal of \$3,130,000 and interest of \$724,520 was paid on the bonds and total statewide sales, services and use tax revenue was \$3,056,376.

On July 1, 2010 and August 9, 2011, the District issued \$14,540,000 and \$2,000,000, respectively, of school infrastructure (statewide) sales, services and use tax revenue qualified school construction bonds (QSCB). The bonds were issued for the purpose of financing a portion of the costs associated with the renovation project of the High School and John Adams Middle School. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and both issues mature July 1, 2027. The bonds have a 0% interest rate. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limit of the District.

The school infrastructure (statewide) sales, services and use tax revenue bonds issued June 29, 2011 and July 12, 2012 were issued for the purpose of defraying a portion of the cost of school infrastructure. Both issues are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through July 1, 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds issued June 29, 2011 and July 12, 2012 include the following provisions:

1. All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
2. Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
3. Monies in the revenue account shall next be disbursed to a reserve account. The required amount is the lesser of the sum of 10% of the stated principal amount of the bonds; 125% of the average annual debt service on the bonds; and the maximum annual debt service on the bonds.
4. Any monies remaining in the revenue account after the required transfers to the sinking account and the reserve account may be transferred to the project account and expended for the purposes of issuance.

The District was in compliance with all of the provisions for the year ended June 30, 2014.

Refunded Bonds

The revenue bonds issued July 28, 2010 were used to advance refund revenue bonds issued July 1, 2004, and the District approved a refunding trust agreement with its refunding trustee. The agreement required the District to transfer cash and authorized the issuance of \$5,845,000 School Infrastructure Sales, Services and Use Tax Revenue Refunding Bonds. The trustee agreed to accept the cash and bond proceeds, invest the funds and call and retire debt principal plus interest. At closing, \$5,192,596 of Series 2010A bond proceeds were wire transferred directly to the refunding trust to purchase certain direct obligations of the United States Government which will mature at such times and in such amounts, including investment income therefrom, as will be sufficient to pay all of the principal and interest on the refunded bonds. Remaining bonds were called in July, 2013 and paid in full as of June 30, 2014.

Notes to the Financial Statements

(6) Long-Term Liabilities

Interfund Loan

During the year ended June 30, 2013, the Board approved an interfund loan from the management levy fund to the Agency Fund in the amount of \$200,000 including interest at 0.3%. This interfund loan was paid in the year ended June 30, 2014.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.95% of their annual 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 \$2,193,927, \$2,063,599 and \$1,849,771, respectively, equal to the required contributions for each year.

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave as of June 30, 2014 was approximately \$10,600,000.

(9) 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.

(10) Area Education Agency Support

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$1,657,408 for the year ended June 30, 2014, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

Notes to the Financial Statements

(11) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to \$75,000 per covered individual. Any amount in excess of \$75,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$4,000,000 for the year ended June 30, 2014.

The District has included \$551,389 in its June 30, 2014 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2014:

Estimated cost incurred but not claimed - June 30, 2013.....	\$ 642,186
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2014.....	4,002,967
Claims paid during the year ended June 30, 2014.....	(4,093,764)
Estimated Costs Incurred But Not Claimed - June 30, 2014.....	<u>\$ 551,389</u>

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten consecutive years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service as of June 30, 2014 was as follows:

Administrators	\$ 900
Teachers/Nurse.....	325
Custodian/Other Nonunion Workers	225
Secretary.....	200
Para-Professional/Food Service Workers	150

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2014 totaled \$304,955. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the General Fund and Special Revenue, Management Levy Fund.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees and retirees and their spouses. There are 465 active and 43 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield: Alliance Select. The dental benefit is administered by Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. Dental benefits are provided on a fully contributory basis, and there is no subsidy or OPEB liability associated with this benefit.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution	\$ 321,000
Interest on net OPEB obligation.....	22,855
Adjustment to annual required contribution.....	<u>(18,855)</u>
Annual OPEB Cost	325,000
Contributions made	<u>(243,000)</u>
Increase in Net OPEB Obligation	82,000
Net OPEB Obligation - Beginning of Year.....	<u>507,000</u>
Net OPEB Obligation - End of Year	<u>\$ 589,000</u>

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

For the fiscal year 2014, the District contributed \$243,000 to the medical plan.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

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	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 253,690	65.8%	\$ 367,690
June 30, 2013	324,310	57.0	507,000
June 30, 2014	243,000	75.7	589,000

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date for the period of July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$2,998,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,998,000. The covered payroll (annual payroll of active employees covered by the plan) was \$21,867,209 and the ratio of the UAAL to the covered payroll was 13.7%. As of June 30, 2014, there were no trust fund assets.

Actuarial Methods and Assumptions

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

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

As of the July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2012 and applying the termination factors used in IPERS Actuarial Valuation Report as of June 30, 2012.

Projected claim costs of the medical plan are \$822 per month for retirees less than 65 and \$378 for retirees who have attained age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(14) Operating Lease

The District leases several office copiers and technology equipment under operating leases expiring in 2015 through 2018. The District also leased modular classrooms under operating leases which expired during the year ended June 30, 2014.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

Year Ending June 30,	
2015	\$ 65,210
2016	41,282
2017	24,643
2018	8,214
Total Minimum Payments Required	<u>\$ 139,349</u>

Rental expense for all operating leases was \$238,758 for the year ended June 30, 2014.

(15) Categorical Funding

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

Program	Amount
Limited English proficiency	\$ 42,076
Statewide voluntary four-year-old preschool program.....	212,842
Education quality, professional development programs	58,184
Early readership	43,068
Market factor	4,747
Nonpublic textbook services	31,497
	<u>\$ 392,414</u>

Notes to the Financial Statements

(16) Construction Commitment

The District has entered into contracts totaling approximately \$4.6 million for several remodeling projects. As of June 30, 2014, costs of approximately \$0.6 million had been incurred against the contracts. The balance of approximately \$4.0 million remaining as of June 30, 2014 will be paid as work on the projects progress.

(17) Subsequent Events

Management has evaluated subsequent events through December 22, 2014, the date which the financial statements were available to be issued.

(18) Prospective Accounting Change

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

Required Supplementary Information

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

Year Ended June 30, 2014

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total	Final Budget	Over (Under) Budget
Revenue					
Local sources	\$ 16,627,347	\$ 823,806	\$ 17,451,153	\$ 21,178,804	\$ (3,727,651)
State sources	25,273,502	16,081	25,289,583	21,177,826	4,111,757
Federal sources.....	<u>2,050,238</u>	<u>1,288,306</u>	<u>3,338,544</u>	<u>2,800,000</u>	<u>538,544</u>
Total Revenue	<u>43,951,087</u>	<u>2,128,193</u>	<u>46,079,280</u>	<u>45,156,630</u>	<u>922,650</u>
Expenditures/Expenses					
Instruction.....	29,234,292	—	29,234,292	32,655,000	(3,420,708)
Support services.....	11,844,969	—	11,844,969	12,713,000	(868,031)
Noninstructional programs.	—	2,223,444	2,223,444	3,060,000	(836,556)
Other expenditures.....	<u>7,794,470</u>	<u>—</u>	<u>7,794,470</u>	<u>15,265,099</u>	<u>(7,470,629)</u>
Total Expenditures/ Expenses	<u>48,873,731</u>	<u>2,223,444</u>	<u>51,097,175</u>	<u>63,693,099</u>	<u>(12,595,924)</u>
Revenue Over (Under) Expenditures/Expenses	(4,922,644)	(95,251)	(5,017,895)	(18,536,469)	13,518,574
Other Financing Sources (Uses) (Net)....	<u>20,398</u>	<u>—</u>	<u>20,398</u>	<u>—</u>	<u>20,398</u>
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses	(4,902,246)	(95,251)	(4,997,497)	(18,536,469)	13,538,972
Balance - Beginning of Year	<u>33,306,237</u>	<u>1,570,941</u>	<u>34,877,178</u>	<u>27,344,257</u>	<u>7,532,921</u>
Balance - End of Year.....	<u>\$ 28,403,991</u>	<u>\$ 1,475,690</u>	<u>\$ 29,879,681</u>	<u>\$ 8,807,788</u>	<u>\$ 21,071,893</u>

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 Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar and 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 functional areas, not by fund. These four functional areas are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2014, expenditures did not exceed the amounts budgeted.

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

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]
2009	7-1-08	\$ —	\$ 2,244,000	\$ 2,244,000	0.0%	\$ 19,903,966	11.3%
2010	7-1-08	—	2,244,000	2,244,000	0.0	20,026,581	11.2
2011	7-1-10	—	2,714,000	2,714,000	0.0	23,395,155	11.6
2012	7-1-10	—	2,714,000	2,714,000	0.0	23,436,244	11.6
2013	7-1-12	—	2,998,000	2,998,000	0.0	24,231,289	12.4
2014	7-1-12	—	2,998,000	2,998,000	0.0	21,867,209	13.7

See Note 13 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2014

	Debt Service	Special Revenue		Total
		Management Levy	Student Activities	
Assets				
Cash and pooled investments.....	\$ 4,252,189	\$ 3,423,722	\$ 299,180	\$ 7,975,091
Receivables, Net of Allowance for Uncollectible Amounts				
Property Tax				
Current year delinquent	—	6,772	—	6,772
Succeeding year	—	999,997	—	999,997
Other	—	—	41,474	41,474
Due from other funds	—	—	107	107
Due from other governments	—	—	1,430	1,430
Restricted Assets				
Cash held by agent.....	231,778	—	—	231,778
Total Assets.....	\$ 4,483,967	\$ 4,430,491	\$ 342,191	\$ 9,256,649
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable.....	\$ —	\$ 704	\$ 11,199	\$ 11,903
Due to other funds.....	—	—	90,126	90,126
Early retirement payable	—	304,955	—	304,955
Total Liabilities	—	305,659	101,325	406,984
Deferred Inflows of Resources				
Unavailable Revenue				
Succeeding year property tax	—	999,997	—	999,997
Other	—	1,188	—	1,188
Total Deferred Inflows of Resources	—	1,001,185	—	1,001,185
Fund Balances				
Restricted for				
Debt service	4,483,967	—	—	4,483,967
Management levy purposes.....	—	3,123,647	—	3,123,647
Student activities.....	—	—	240,866	240,866
Total Fund Balances	4,483,967	3,123,647	240,866	7,848,480
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,483,967	\$ 4,430,491	\$ 342,191	\$ 9,256,649

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

Year Ended June 30, 2014

		Special Revenue		
	Debt Service	Management Levy	Student Activities	Total
Revenue				
Local Sources				
Local tax.....	\$ —	\$ 500,701	\$ —	\$ 500,701
Other	—	15,967	706,260	722,227
State sources	<u>6,564</u>	<u>366</u>	<u>—</u>	<u>6,930</u>
Total Revenue	<u>6,564</u>	<u>517,034</u>	<u>706,260</u>	<u>1,229,858</u>
Expenditures				
Current				
Instruction				
Co-curricular.....	—	—	757,113	757,113
Support Services				
Other support	—	784,630	—	784,630
Other Expenditures				
Long-term Debt				
Principal.....	3,130,000	—	—	3,130,000
Interest and fiscal charges	<u>725,770</u>	<u>—</u>	<u>—</u>	<u>725,770</u>
Total Other Expenditures.....	<u>3,855,770</u>	<u>—</u>	<u>—</u>	<u>3,855,770</u>
Total Expenditures	<u>3,855,770</u>	<u>784,630</u>	<u>757,113</u>	<u>5,397,513</u>
Revenue Under Expenditures	<u>(3,849,206)</u>	<u>(267,596)</u>	<u>(50,853)</u>	<u>(4,167,655)</u>
Other Financing Sources				
Operating transfers in.....	<u>2,179,822</u>	<u>—</u>	<u>—</u>	<u>2,179,822</u>
Net Change in Fund Balances	(1,669,384)	(267,596)	(50,853)	(1,987,833)
Fund Balances - Beginning of Year	<u>6,153,351</u>	<u>3,391,243</u>	<u>291,719</u>	<u>9,836,313</u>
Fund Balances - End of Year	<u>\$ 4,483,967</u>	<u>\$ 3,123,647</u>	<u>\$ 240,866</u>	<u>\$ 7,848,480</u>

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

Year Ended June 30, 2014

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Administration.....	\$ 18,493	\$ 14,739	\$ 7,059	\$ 26,173
Special Olympics.....	—	3,339	3,339	—
Talent Development	4,779	1,600	5,840	539
High School Speech and Drama.....	1,429	2,936	3,123	1,242
High School Vocal Music.....	67,426	79,197	77,645	68,978
High School Instrumental Music	20,981	31,848	22,920	29,909
High School Athletics.....	—	338,994	338,925	69
Dance Team.....	—	5,707	5,707	—
Cheerleading	—	19,220	19,220	—
General Athletics	62,566	14,926	67,457	10,035
Concession Stand	8,552	60,149	60,646	8,055
Tournaments	4,055	23,476	23,556	3,975
National Art Honor Society	932	10	15	927
Foreign Language	211	674	632	253
AFS International Club	1,204	—	—	1,204
Model U.N.	—	674	674	—
Literary Club	237	—	—	237
Math Club.....	1,569	—	—	1,569
Science Club	217	—	—	217
Home Economics	243	—	—	243
Adult Living.....	449	—	—	449
Gay/Straight Alliance	195	205	—	400
Industrial Tech - Special Project	563	—	—	563
Prom	11,793	5,101	5,056	11,838
Student Council	—	13,826	13,826	—
Mohawk Press.....	61	—	61	—
Yearbook.....	—	39,255	39,255	—
Ambassadors	1,053	—	—	1,053
National Honor Society.....	—	670	475	195
Alternative School	4,066	540	730	3,876
Middle School Athletics	158	11,462	11,620	—
Middle School Vocal Music.....	169	—	—	169
John Adams Middle School	21,967	8,931	8,296	22,602
Harding Elementary.....	2,431	3,142	1,843	3,730
Hoover Technology	—	436	436	—
Jefferson Elementary.....	279	4,444	2,492	2,231
Lincoln Intermediate	34,393	12,664	25,813	21,244
Student Parking.....	7,012	1,014	3,932	4,094
MCHS JEL	5,740	—	—	5,740
MCHS Sod House	17	—	—	17
MCHS Table Tennis	107	—	—	107
MCHS Best Buddies.....	3,943	—	2,385	1,558
MCHS Giving Tree	—	1,148	1,148	—
River City Honor Band.....	3,354	5,821	2,934	6,241
Spirit Store	—	53	53	—
MCHC/ISU Prosper Grant	1,075	59	—	1,134
	<u>\$ 291,719</u>	<u>\$ 706,260</u>	<u>\$ 757,113</u>	<u>\$ 240,866</u>

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2014

	<u>Capital Projects</u>		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Assets			
Cash and pooled investments	\$ 12,486,934	\$ 3,424,025	\$ 15,910,959
Receivables, Net of Allowance for Uncollectible Amounts			
Property Tax			
Current year delinquent	—	5,249	5,249
Succeeding year	—	1,200,537	1,200,537
Accrued interest.....	5,173	—	5,173
Other	—	19,748	19,748
Due from other governments	<u>515,966</u>	<u>—</u>	<u>515,966</u>
Total Assets	<u>\$ 13,008,073</u>	<u>\$ 4,649,559</u>	<u>\$ 17,657,632</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts payable	\$ 244,424	\$ 128,511	\$ 372,935
Retainage payable	14,621	568	15,189
Due to other funds.....	<u>—</u>	<u>23,333</u>	<u>23,333</u>
Total Liabilities.....	<u>259,045</u>	<u>152,412</u>	<u>411,457</u>
Deferred Inflows of Resources			
Unavailable Revenue			
Succeeding year property tax	—	1,200,537	1,200,537
Other	<u>—</u>	<u>927</u>	<u>927</u>
Total Deferred Inflows of Resources..	<u>—</u>	<u>1,201,464</u>	<u>1,201,464</u>
Fund Balances			
Restricted for			
School infrastructure.....	12,749,028	—	12,749,028
Physical plant and equipment.....	<u>—</u>	<u>3,295,683</u>	<u>3,295,683</u>
Total Fund Balances.....	<u>12,749,028</u>	<u>3,295,683</u>	<u>16,044,711</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances.....	<u>\$ 13,008,073</u>	<u>\$ 4,649,559</u>	<u>\$ 17,657,632</u>

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

Year Ended June 30, 2014

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Revenue			
Local Sources			
Local tax.....	\$ —	\$ 395,404	\$ 395,404
Other	245,776	29,595	275,371
State sources	3,056,376	278	3,056,654
Federal sources.....	600,000	—	600,000
Total Revenue	3,902,152	425,277	4,327,429
Expenditures			
Current			
Support Services			
Operation and maintenance of plant	—	17,905	17,905
Other Expenditures			
Facilities acquisition.....	1,559,640	721,292	2,280,932
Long-Term Debt			
Interest and fiscal charges	360	—	360
Total Other Expenditures	1,560,000	721,292	2,281,292
Total Expenditures	1,560,000	739,197	2,299,197
Revenue Over (Under) Expenditures	2,342,152	(313,920)	2,028,232
Other Financing Uses			
Operating transfers out.....	(2,179,822)	—	(2,179,822)
Net Change in Fund Balances	162,330	(313,920)	(151,590)
Fund Balances - Beginning of Year	12,586,698	3,609,603	16,196,301
Fund Balances - End of Year	\$ 12,749,028	\$ 3,295,683	\$ 16,044,711

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	\$ 233,284	\$ 3,132,843	\$ 3,343,687	\$ 22,440
Due from other governments	31,630	22,797	31,630	22,797
Due from other funds.....	—	22,366	—	22,366
Due from others.....	<u>—</u>	<u>300</u>	<u>—</u>	<u>300</u>
Total Assets	<u>\$ 264,914</u>	<u>\$ 3,178,306</u>	<u>\$ 3,375,317</u>	<u>\$ 67,903</u>
Liabilities				
Accounts payable	\$ 714	\$ 8,644	\$ 714	\$ 8,644
Due to others.....	62,351	3,163,904	3,172,754	53,501
Due to other funds.....	1,849	5,758	1,849	5,758
Interfund loan from Management Levy Fund	<u>200,000</u>	<u>—</u>	<u>200,000</u>	<u>—</u>
Total Liabilities	<u>\$ 264,914</u>	<u>\$ 3,178,306</u>	<u>\$ 3,375,317</u>	<u>\$ 67,903</u>

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

For the Last Ten Years

	2014	2013	2012	2011
Revenue				
Local Sources				
Local tax	\$ 12,690,127	\$ 20,003,235	\$ 21,619,421	\$ 20,647,075
Tuition	2,170,031	2,360,503	1,138,074	1,045,534
Other	1,767,189	1,599,032	1,597,308	1,754,735
Intermediate sources	—	—	—	—
State sources	25,273,502	21,783,414	21,940,696	21,348,850
Federal sources	<u>2,050,238</u>	<u>1,909,983</u>	<u>3,455,738</u>	<u>2,447,878</u>
Total	<u>\$ 43,951,087</u>	<u>\$ 47,656,167</u>	<u>\$ 49,751,237</u>	<u>\$ 47,244,072</u>
Expenditures				
Instruction				
Regular	\$ 14,571,177	\$ 15,174,027	\$ 15,145,617	\$ 14,114,646
Special	9,538,238	9,501,238	7,886,574	7,641,949
Vocational	646,304	572,186	530,104	562,895
Co-curricular	4,478,573	4,155,881	4,210,018	3,716,156
Support Services				
Student	1,099,246	1,179,260	1,098,559	921,853
Instructional staff	1,255,924	1,229,879	947,148	1,267,666
Administration	3,907,320	3,711,122	3,401,533	3,528,429
Operation and maintenance				
of plant	3,176,027	3,015,214	2,894,601	2,939,840
Transportation	1,611,872	1,508,116	1,450,144	1,334,757
Central	—	—	22	32
Community	9,950	8,690	8,341	11,603
Other support	784,630	717,661	615,431	763,222
Noninstructional programs	—	—	21,450	19,535
Other Expenditures				
Facilities acquisition	2,280,932	11,171,839	17,786,644	8,031,028
Long-Term Debt				
Principal	3,130,000	4,130,000	3,140,000	2,830,000
Interest and fiscal charges	726,130	805,297	437,920	780,846
AEA flowthrough	<u>1,657,408</u>	<u>1,612,731</u>	<u>1,665,747</u>	<u>1,841,165</u>
Total	<u>\$ 48,873,731</u>	<u>\$ 58,493,141</u>	<u>\$ 61,239,853</u>	<u>\$ 50,305,622</u>

2010	2009	2008	2007	2006	2005
\$ 18,792,533	\$ 18,482,676	\$ 18,369,828	\$ 17,944,250	\$ 17,655,326	\$ 16,907,057
969,895	773,756	689,366	688,651	559,101	673,039
1,557,159	1,735,786	2,169,005	2,397,408	2,144,816	2,102,912
—	—	3,239	3,070	3,150	21,812
18,898,633	21,634,299	20,938,336	20,594,807	19,990,995	19,381,781
<u>4,124,438</u>	<u>1,008,833</u>	<u>1,198,706</u>	<u>1,252,122</u>	<u>1,139,746</u>	<u>1,193,538</u>
<u>\$ 44,342,658</u>	<u>\$ 43,635,350</u>	<u>\$ 43,368,480</u>	<u>\$ 42,880,308</u>	<u>\$ 41,493,134</u>	<u>\$ 40,280,139</u>
\$ 14,567,967	\$ 14,329,253	\$ 13,925,271	\$ 14,094,556	\$ 12,851,648	\$ 12,499,642
8,173,084	8,951,060	8,582,024	7,961,424	7,930,603	8,343,099
719,311	800,266	823,893	725,538	623,236	583,875
3,271,661	2,769,624	2,697,209	2,274,720	2,104,340	1,374,316
1,033,000	965,307	856,993	946,822	914,875	945,606
781,290	953,723	768,295	859,849	826,137	1,906,887
3,515,080	3,685,363	3,736,825	3,496,479	3,214,801	2,854,026
2,943,584	3,244,035	2,900,385	2,924,864	2,743,789	2,531,780
1,263,411	1,277,202	1,180,755	1,070,857	1,118,067	729,202
133,686	155,736	—	3,947	57,608	25,733
21,734	20,581	31,535	27,220	28,998	29,456
452,308	405,477	411,467	432,686	418,981	427,280
26,285	31,434	35,969	47,893	39,145	286,515
996,763	506,723	712,643	4,398,636	15,709,139	3,296,605
5,955,000	2,595,000	2,510,000	2,450,000	2,335,000	575,000
571,464	757,028	842,650	941,675	1,029,600	676,450
<u>1,827,794</u>	<u>1,556,509</u>	<u>1,473,782</u>	<u>1,441,443</u>	<u>1,384,649</u>	<u>1,343,115</u>
<u>\$ 46,253,422</u>	<u>\$ 43,004,321</u>	<u>\$ 41,489,696</u>	<u>\$ 44,098,609</u>	<u>\$ 53,330,616</u>	<u>\$ 38,428,587</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Indirect			
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 14	\$ 185,508
National School Lunch Program	10.555	FY 14	1,030,853*
Summer Food Service Program for Children	10.559	FY 14	<u>12,509</u>
Total Child Nutrition Cluster			<u>1,228,870</u>
Fresh Fruit and Vegetable Program	10.582	FY 14	<u>54,288</u>
Total U.S. Department of Agriculture			<u>1,283,158</u>
U.S. Department of Justice			
Pass-Through From Iowa Department of Human Services			
Juvenile Justice and Delinquency Prevention -			
Allocation to States	16.540	FY 14	<u>6,139</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY 14	<u>839,053</u>
Career and Technical Education - Basic Grants to States	84.048	FY 14	<u>29,151</u>
Advanced Placement Program	84.330	FY 14	<u>501</u>
English Language Acquisition State Grants	84.365	FY 14	<u>133</u>
Improving Teacher Quality State Grants	84.367	FY 14	<u>157,910</u>
Grants for State Assessments and Related Activities..	84.369	FY 14	<u>20,840</u>
Total Pass-Through From Iowa Department of Education			<u>1,047,588</u>
Pass-Through From Area Education Agency 267			
Special Education - Grants to States	84.027	FY 14	<u>207,315</u>
Total U.S. Department of Education			<u>1,254,903</u>
U.S. Department of Health and Human Services			
Pass-Through From Iowa Department of Education			
Temporary Assistance for Needy Families	93.558	FY 14	<u>9,608</u>
Medical Assistance Program	93.778	FY 14	<u>180,140</u>
Total U.S. Department of Health and Human Services			<u>189,748</u>
Total			<u>\$ 2,733,948</u>

* Includes \$141,129 of noncash awards.

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Basis of Presentation

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

Subrecipients

The Mason City Community School District provided no federal awards to subrecipients.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

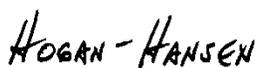
Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not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

Mason City Community School District's Response to Finding

The Mason City Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Mason City Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion 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 results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HOGAN - HANSEN

Mason City, Iowa
December 22, 2014

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A Professional Corporation

Certified Public Accountants and Consultants

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 22, 2014

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness identified?

yes no

Significant deficiency identified not considered to be material weaknesses?

yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

Material weakness identified?

yes no

Significant deficiency identified not considered to be material weakness?

yes none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?

yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

84.010

Title I Grants to Local Education Agencies

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

\$300,000

Auditee qualified as low-risk auditee?

yes no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part IV: Other Findings Related to Statutory Reporting

14-IV-A Certified Budget - Expenditures for the year ended June 30, 2014 did not exceed the certified budget.

14-IV-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

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

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

14-IV-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not. However, we noted two of the four monthly minutes tested were not published within 15 days as required by Chapter 279.35 of the Code of Iowa.

Auditor's Recommendation - All minutes should be published within two weeks of each meeting.

District's Response - We will publish future minutes as required by Chapter 279.35.

Auditor's Conclusion - Response accepted.

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

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

14-IV-I Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

13-IV-J Certified Annual Report

Finding - The Certified Annual Report (CAR) was certified timely with the Iowa Department of Education, but we noted one difference between the amounts reported and the District's general ledger.

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

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

Auditor's Conclusion - Response accepted.

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

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

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

Beginning balance.....			\$ 12,586,698
Revenue			
Statewide sales, services and use tax revenue	\$ 3,056,376		
Other local revenue	245,776		
Federal revenue	<u>600,000</u>		3,902,152
Expenditures/Transfers Out			
School infrastructure construction	\$ 1,559,640		
Other	360		
Transfers to Other Funds			
Debt Service Fund.....	<u>2,179,822</u>		<u>3,739,822</u>
Ending Balance			<u>\$ 12,749,028</u>

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