

**Northeast Community School District
Goose Lake, Iowa**

Financial Report
Year Ended June 30, 2014

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Northeast Community School District

Officials

Year Ended June 30, 2014

Name	Title	Term Expires
Board of Education		
Charles Corr	President	2015
Mary Smith	Vice President	2017
Andy Friedrichsen	Board Member	2017
Richard Krogmann	Board Member	2015
William Costello	Board Member	2015

School Officials

Jim Cox	Superintendent
Kristy Weiss	District Secretary/Treasurer/ Business Manager
Ahlers & Cooney, P.C.	Attorney

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Independent Auditor's Report

To the Board of Education
Northeast Community School District
Goose Lake, 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 Northeast Community School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Northeast Community School District, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with 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, schedules of funding progress, and budgetary comparison information, on pages 4-13 and 43-46 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with 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 as a whole.

The District's basic financial statements for the years ended June 30, 2005 through 2010, which are not presented herein, were audited by other auditors whose report thereon dated March 21, 2011, expressed unmodified opinions on the basic financial statements. Their report on the Schedule of Revenues by Source and Expenditures by Function for the years ended June 30, 2005 through 2010 stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2005 through 2010 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bohnsack & Frommelt LLP

Overland Park, Kansas

November 21, 2014

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Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

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

Financial Highlights

- General fund revenues increased from \$7,580,079 in fiscal year 2013 to \$7,837,795 in fiscal year 2014. General fund expenditures increased from \$7,748,354 in fiscal year 2013 to \$8,184,172 in fiscal year 2014. This resulted in a decrease in the District's General fund balance from \$1,538,456 to \$1,192,079. This represents a 22.5% decrease from the prior year.
- As of June 30, 2014, the District's governmental funds reported combined ending fund balances of \$5,457,835, a decrease of \$3,965,239 in comparison with 2013. Of the total combined fund balance, \$1,053,810 represents unassigned fund balance. As of June 30, 2013, the District's governmental funds reported combined ending fund balances of \$9,423,074, an increase of \$7,279,906 in comparison with 2012. Of the total combined fund balance, \$1,397,349 represents unassigned fund balance.
- The District reported a decrease in net position of \$166,113 during the year ended June 30, 2014. The District reported an increase in net position of \$10,759 during the year ended June 30, 2013.

Using this Annual Report

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

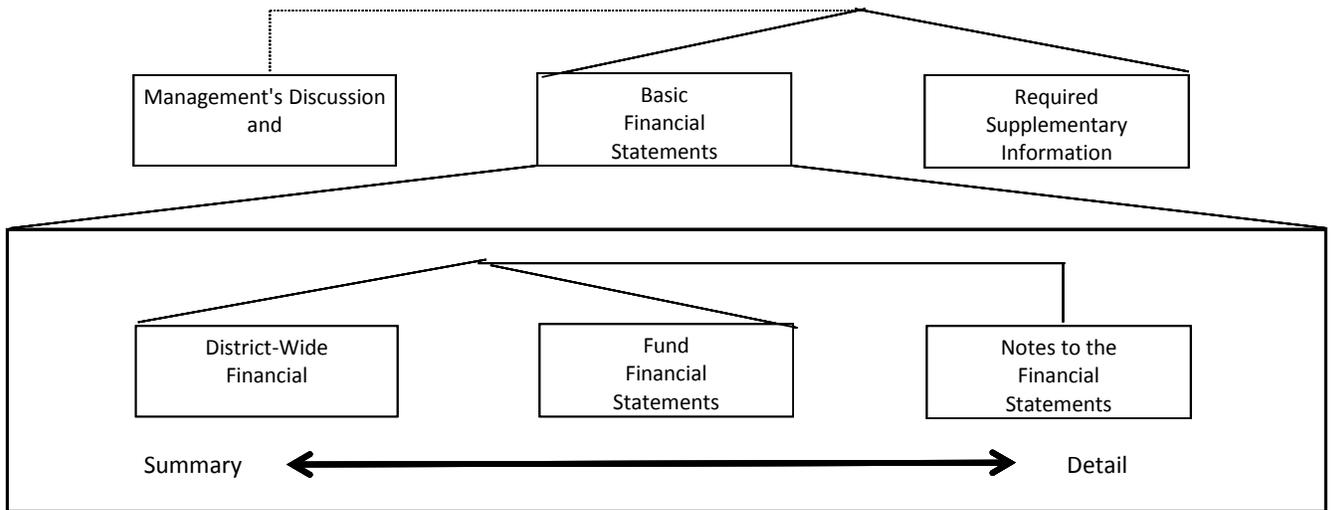
- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Northeast 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 Northeast Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to 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.
- Other supplementary information provides detailed information about the nonmajor governmental funds.

Northeast Community School District

**Management's Discussion and Analysis
Year Ended June 30, 2014**

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

Figure A-1
Northeast Community School District Annual Financial Report



Northeast Community School District

**Management’s Discussion and Analysis
Year Ended June 30, 2014**

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

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
Government-Wide Statements		Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: school nutrition and internal service fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs, reunion moneys and funds for District employee purchases of pop, etc.
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

Government-Wide Financial Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional nonfinancial factors, such as changes in the District's property tax based and the condition of school buildings and other facilities need to be considered.

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

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help it cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

The District has two kinds of funds:

- 1) **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The District's major governmental funds for fiscal year 2014 were the General Fund, Capital Projects Fund, and Debt Service Fund. The nonmajor governmental funds include two Special Revenue Funds (the Management Fund and Student Activity Fund). The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise 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. The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

The District does not have any fiduciary funds. Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

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

Figure A-3 Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	
Current and other assets	\$ 13,147,222	\$ 10,553,426	\$ 105,196	\$ 95,511	\$ 13,252,418	\$ 10,648,937	-19.6%
Capital assets	11,852,348	15,918,676	108,632	104,880	11,960,980	16,023,556	34.0%
Total assets	24,999,570	26,472,102	213,828	200,391	25,213,398	26,672,493	5.8%
Long-term liabilities	11,571,120	11,821,269	1,819	2,347	11,572,939	11,823,616	2.2%
Other liabilities	937,012	2,106,126	5,280	6,310	942,292	2,112,436	124.2%
Total liabilities	12,508,132	13,927,395	7,099	8,657	12,515,231	13,936,052	11.4%
Deferred inflows of resources	2,569,032	2,773,419	-	-	2,569,032	2,773,419	8.0%
Net position:							
Net investment in capital assets	7,759,890	8,068,845	108,632	104,880	7,868,522	8,173,725	3.9%
Restricted	862,977	1,249,055	-	-	862,977	1,249,055	44.7%
Unrestricted	1,299,539	453,388	98,097	86,854	1,397,636	540,242	-61.3%
Total net position	\$ 9,922,406	\$ 9,771,288	\$ 206,729	\$ 191,734	\$ 10,129,135	\$ 9,963,022	-1.6%

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

The District's combined net position as of June 30, 2014 decreased by \$166,113 (1.6 percent) over the June 30, 2013 combined net position. Net position in the governmental activities decreased by \$151,118. The net position of the District's business-type activities decreased by \$14,995.

The major factor for the decrease in net position of the District is the interest expense for additional borrowings and increases in operational costs.

Restricted net position represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased by \$386,078 or 44.7 percent from the prior year. The increase was primarily a result of increases to the debt service sinking fund requirements.

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 by \$857,394 or 61.3 percent.

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 Changes in Net Position From Operating Results

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	
Revenues:							
Program revenues:							
Charges for services	\$ 2,601,712	\$ 2,908,906	\$ 223,351	\$ 235,105	\$ 2,825,063	\$ 3,144,011	11.3%
Operating grants and contributions	892,735	1,014,527	207,103	226,992	1,099,838	1,241,519	12.9%
Capital grants and contributions	65,298	-	-	-	65,298	-	-100.0%
General revenues:							
Property taxes	2,579,407	2,512,878	-	-	2,579,407	2,512,878	-2.6%
Income surtax	257,568	291,836	-	-	257,568	291,836	13.3%
State foundation aid	2,180,341	2,307,160	-	-	2,180,341	2,307,160	5.8%
Statewide sales and services tax	356,220	435,118	-	-	356,220	435,118	22.1%
Other	32,577	76,267	866	326	33,443	76,593	129.0%
Total revenues	8,965,858	9,546,692	431,320	462,423	9,397,178	10,009,115	6.5%
Expenses:							
Instruction	5,324,943	6,236,669	-	-	5,324,943	6,236,669	17.1%
Support services	2,829,500	3,087,950	22,909	25,648	2,852,409	3,113,598	9.2%
Noninstructional programs	2,500	3,731	429,184	451,770	431,684	455,501	5.5%
Other	777,383	369,460	-	-	777,383	369,460	-52.5%
Total expenses	8,934,326	9,697,810	452,093	477,418	9,386,419	10,175,228	8.4%
Transfers	-	-	-	-	-	-	-
Increase (decrease) in net position	\$ 31,532	\$ (151,118)	\$ (20,773)	\$ (14,995)	\$ 10,759	\$ (166,113)	

In 2013-14, local taxes (property taxes and statewide sales and services tax) and state foundation aid accounted for 58.1 percent of the revenue from governmental activities. Charges for services and operating grants and contributions accounted for 99.9 percent of the revenue from business-type activities. In 2012-13, local taxes (property taxes and statewide sales and services tax) and state foundation aid accounted for 59.9 percent of the revenue from governmental activities. Charges for services and operating grants and contributions accounted for 99.7 percent of the revenue from business-type activities.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

The District's expenses primarily relate to instructional and support services which account for 91.9 percent and 87.1 percent of the total expenses in fiscal years 2014 and 2013, respectively.

Total revenue for the District increased by \$611,937 (6.5 percent) in the fiscal year ended June 30, 2014. The most significant revenue category change was in charges for services. Charges for services increased due to the increase in the state allowed maximum tuition rate for open enrolled students and increases in tuition charged to other districts for special education.

Total District expenses increased 8.4 percent or \$788,809 from June 30, 2013 primarily due to increases in operating costs due to the growth in facilities and enrollment. Total District expenses increased 17.2 percent in 2012-13 primarily due to increased interest expense for outstanding bonds and operating costs due to growth in facilities and enrollment.

Governmental Activities

Governmental activities net position as of June 30, 2014 decreased by \$151,118 (1.5 percent) over the June 30, 2013 balance. Revenue for the District's governmental activities in 2013-2014 increased by \$580,834 (6.4 percent) from the previous year, while total expenses increased by \$763,484 (8.5 percent). The following table presents the total and net cost of the District's four major governmental activities: instruction, support services, noninstructional programs and other expenses, for the year ended June 30, 2014 compared to the year ended June 30, 2013:

Figure A-5 Net Cost of Governmental Activities

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	June 30, 2013	June 30, 2014	Change June 30, 2014	June 30, 2013	June 30, 2014	Change June 30, 2014
Instruction	\$ 5,324,943	\$ 6,236,669	17.12%	\$ 2,128,608	\$ 2,632,331	23.7%
Support services	2,829,500	3,087,950	9.13%	2,658,388	2,976,586	12.0%
Noninstructional	2,500	3,731	49.24%	2,500	3,731	49.2%
Other	777,383	369,460	-52.47%	585,085	161,729	-72.4%
	<u>\$ 8,934,326</u>	<u>\$ 9,697,810</u>	8.55%	<u>\$ 5,374,581</u>	<u>\$ 5,774,377</u>	7.4%

For the year ended June 30, 2014:

- The cost financed by the users of the District's programs was \$2,908,906.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$1,014,527.
- The net cost of governmental activities was financed with \$2,512,878 in property taxes, \$2,307,160 of unrestricted state grants, \$435,118 in statewide sales and services tax revenue, \$291,836 in income surtax revenue, and \$76,267 in investment earnings.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

For the year ended June 30, 2013:

- The cost financed by the users of the District's programs was \$2,601,712.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$958,033.
- The net cost of governmental activities was financed with \$2,579,407 in property taxes, \$2,180,341 of unrestricted state grants, \$356,220 in statewide sales and services tax revenue, \$257,568 in income surtax revenue, and \$32,577 in investment earnings.

Business-Type Activities

Revenues of the District's business-type activities were \$462,423 and expenses were \$477,418. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Individual Fund Analysis

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,457,835, which is below last year's ending fund balances of \$9,423,074. The primary reason for the decrease in combined fund balances at the end of fiscal 2014 is due to facility acquisitions expended from proceeds of general obligation bonds issued in 2013.

Governmental Fund Highlights

- The fund balance in the District's General Fund decreased by \$346,377 from \$1,538,456 as of June 30, 2013 to \$1,192,079 as of June 30, 2014. The decrease is mainly due to increases in expenditures while revenues did not significantly increase.
- The fund balance in the Capital Projects Fund decreased by \$3,866,940 during 2013-14. This decrease was from expenditures for facilities acquisition that were planned for with the issuance of \$7.5 million in general obligation bonds during fiscal year 2013.
- The fund balance of the Debt Service Fund increased \$179,138 from \$612,804 as of June 30, 2013 to \$791,942 as of June 30, 2014. The increase is mainly due to the \$177,537 annual transfer from the Capital Projects Fund to the debt service reserve as required by the bonds.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$206,729 as of June 30, 2013 to \$191,734 as of June 30, 2014. The decrease was mainly due to increases in food costs.

Budgetary Highlights

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.

In accordance with the Code of Iowa, the Board of Education annual adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District uses the

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

GAAP (Generally Accepted Accounting Principles) method of accounting for budgeting purposes. Iowa law requires that actual spending in each functional area of the budget does not exceed the amount budgeted to be spent in that functional area at any time during the fiscal year. 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. The budget was not amended during the 2013-2014 school year.

The District's revenues were approximately \$1.1 million more than budgeted revenues. The District received more in local and state sources that originally anticipated. The District's expenditures were approximately \$3.2 million less than budgeted due to the timing of capital expenditures.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2013-14 fiscal year, the District had invested \$16,023,556 (net of accumulated depreciation of \$7,422,601) in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. (See Figure A-6). This amount represents a net increase of \$4,008,531 from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year was \$514,758.

Figure A-6 Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	
Land	\$ 202,905	\$ 202,905	\$ -	\$ -	\$ 202,905	\$ 202,905	0.0%
Buildings	10,527,601	10,586,883	29,741	29,121	10,557,342	10,616,004	0.6%
Improvements other than buildings	699,704	633,405	-	-	699,704	633,405	-9.5%
Furniture and equipment	157,103	352,159	78,891	75,759	235,994	427,918	81.3%
Construction in progress	265,035	4,143,324	-	-	265,035	4,143,324	1463.3%
Total	\$ 11,852,348	\$ 15,918,676	\$ 108,632	\$ 104,880	\$ 11,960,980	\$ 16,023,556	34.0%

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2014

Long-Term Liabilities

As of June 30, 2014, the District had \$11,823,616 in general obligation and other long-term debt outstanding. This represents an increase of \$250,677 from the prior year. See Figure A-7 below. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7 Outstanding Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	
General obligation bonds	\$ 8,060,559	\$ 7,733,614	\$ -	\$ -	\$ 8,060,559	\$ 7,733,614	-4.1%
Qualified school construction bonds	3,302,000	3,302,000	-	-	3,302,000	3,302,000	-
Capital loan notes	-	302,805	-	-	-	302,805	100%
Note payable	-	190,631	-	-	-	190,631	100%
Early retirement	48,505	85,700	-	-	48,505	85,700	76.7%
Net OPEB liability	160,056	206,519	1,819	2,347	161,875	208,866	29.0%
Total	\$ 11,571,120	\$ 11,821,269	\$ 1,819	\$ 2,347	\$ 11,572,939	\$ 11,823,616	2.2%

Economic Factors Bearing on the District's Future

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

- Continued budget concerns at the state level will likely affect the District in the next several years.
- The creation of a new school district in the area will most likely impact the revenue and expenditures of the District.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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 Kristy Weiss, Business Manager, Northeast Community School District, P.O. Box 66, Goose Lake, Iowa 52750.

Northeast Community School District

Statement of Net Position June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 6,041,872	\$ 104,951	\$ 6,146,823
Receivables:			
Property tax:			
Current year	27,296	-	27,296
Succeeding year	2,773,419	-	2,773,419
Other	250,254	155	250,409
Due from other governments	683,231	-	683,231
Internal balances	16,416	(16,416)	-
Inventories	-	6,821	6,821
Restricted cash	760,938	-	760,938
Capital assets:			
Nondepreciable	4,346,229	-	4,346,229
Depreciable, net	11,572,447	104,880	11,677,327
Total assets	26,472,102	200,391	26,672,493
Liabilities			
Accounts payable	1,340,891	1,784	1,342,675
Salaries and benefits payable	731,027	-	731,027
Accrued interest payable	34,208	-	34,208
Unearned revenue	-	4,526	4,526
Long-term liabilities:			
Portion due within one year:			
Early retirement	62,523	-	62,523
General obligation bonds	355,000	-	355,000
Capital loan notes	31,105	-	31,105
Note payable	61,891	-	61,891
Portion due after one year:			
Early retirement	23,177	-	23,177
General obligation bonds	7,378,614	-	7,378,614
Qualified school construction bonds	3,302,000	-	3,302,000
Capital loan notes	271,700	-	271,700
Note payable	128,740	-	128,740
Net OPEB liability	206,519	2,347	208,866
Total liabilities	13,927,395	8,657	13,936,052
Deferred inflows of resources, deferred revenue	2,773,419	-	2,773,419
Net Position			
Net investment in capital assets	8,068,845	104,880	8,173,725
Restricted for:			
Categorical funding	138,269	-	138,269
Debt service	791,942	-	791,942
Management levy	106,490	-	106,490
Student activities	35,777	-	35,777
School infrastructure	71,251	-	71,251
Physical plant and equipment	105,326	-	105,326
Unrestricted	453,388	86,854	540,242
Total net position	\$ 9,771,288	\$ 191,734	\$ 9,963,022

See Notes to Financial Statements.

Northeast Community School District

**Statement of Activities
Year Ended June 30, 2014**

Functions/Programs	Expenses
Governmental activities:	
Instruction:	
Regular instruction	\$ 4,025,241
Special instruction	1,272,380
Other	939,048
	<u>6,236,669</u>
Support services:	
Student services	347,128
Instructional staff services	218,149
Administration services	917,535
Operation and maintenance of plant services	760,255
Transportation services	844,883
	<u>3,087,950</u>
Noninstructional programs	<u>3,731</u>
Other expenditures:	
Long term debt interest	161,729
AEA flowthrough	207,731
	<u>369,460</u>
Total governmental activities	<u>9,697,810</u>
Business-Type Activities:	
Support services:	
Administration services	12,975
Operation and maintenance of plant services	12,673
	<u>25,648</u>
Noninstructional programs, food service operations	<u>451,770</u>
Total business-type activities	<u>477,418</u>
Total	<u>\$ 10,175,228</u>
General revenues and transfers:	
General revenues:	
Property tax levied for:	
General purposes	
Capital outlay	
Debt service	
Statewide sales and services tax	
Income surtax	
Unrestricted state grants	
Unrestricted investment earnings	
Transfers	
Total general revenues and transfers	
Change in net position	
Net position, beginning of year	
Net position, end of year	

See Notes to Financial Statements.

Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 1,982,085	\$ 631,915	\$ -	\$ (1,411,241)	\$ -	\$ (1,411,241)
633,663	60,730	-	(577,987)	-	(577,987)
293,158	2,787	-	(643,103)	-	(643,103)
<u>2,908,906</u>	<u>695,432</u>	<u>-</u>	<u>(2,632,331)</u>	<u>-</u>	<u>(2,632,331)</u>
-	108,297	-	(238,831)	-	(238,831)
-	-	-	(218,149)	-	(218,149)
-	-	-	(917,535)	-	(917,535)
-	-	-	(760,255)	-	(760,255)
-	3,067	-	(841,816)	-	(841,816)
-	<u>111,364</u>	<u>-</u>	<u>(2,976,586)</u>	<u>-</u>	<u>(2,976,586)</u>
-	-	-	(3,731)	-	(3,731)
-	-	-	(161,729)	-	(161,729)
-	207,731	-	-	-	-
-	<u>207,731</u>	<u>-</u>	<u>(161,729)</u>	<u>-</u>	<u>(161,729)</u>
<u>2,908,906</u>	<u>1,014,527</u>	<u>-</u>	<u>(5,774,377)</u>	<u>-</u>	<u>(5,774,377)</u>
-	-	-	-	(12,975)	(12,975)
-	-	-	-	(12,673)	(12,673)
-	-	-	-	(25,648)	(25,648)
<u>235,105</u>	<u>226,992</u>	<u>-</u>	<u>-</u>	<u>10,327</u>	<u>10,327</u>
<u>235,105</u>	<u>226,992</u>	<u>-</u>	<u>-</u>	<u>(15,321)</u>	<u>(15,321)</u>
<u>\$ 3,144,011</u>	<u>\$ 1,241,519</u>	<u>\$ -</u>	<u>(5,774,377)</u>	<u>(15,321)</u>	<u>(5,789,698)</u>
			1,884,614	-	1,884,614
			171,224	-	171,224
			457,040	-	457,040
			435,118	-	435,118
			291,836	-	291,836
			2,307,160	-	2,307,160
			76,267	326	76,593
			-	-	-
			<u>5,623,259</u>	<u>326</u>	<u>5,623,585</u>
			(151,118)	(14,995)	(166,113)
			9,922,406	206,729	10,129,135
			<u>\$ 9,771,288</u>	<u>\$ 191,734</u>	<u>\$ 9,963,022</u>

Northeast Community School District

**Balance Sheet
Governmental Funds
June 30, 2014**

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,457,085	\$ 4,397,822	\$ 24,897	\$ 162,068	\$ 6,041,872
Receivables:					
Property tax:					
Current year	21,749	2,287	-	3,260	27,296
Succeeding year	1,805,627	187,042	527,750	253,000	2,773,419
Income surtax	250,254	-	-	-	250,254
Due from other funds	16,416	-	-	-	16,416
Due from other governments	597,080	79,974	6,107	70	683,231
Restricted cash	-	-	760,938	-	760,938
Total assets	\$ 4,148,211	\$ 4,667,125	\$ 1,319,692	\$ 418,398	\$ 10,553,426
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 169,224	\$ 1,148,536	\$ -	\$ 23,131	\$ 1,340,891
Salaries and benefits payable	731,027	-	-	-	731,027
Total liabilities	900,251	1,148,536	-	23,131	2,071,918
Deferred inflows of resources, unavailable revenue:					
Succeeding year property tax	1,805,627	187,042	527,750	253,000	2,773,419
Income surtax	250,254	-	-	-	250,254
Total deferred inflows of resources	2,055,881	187,042	527,750	253,000	3,023,673
Fund balances:					
Restricted for:					
Categorical funding	138,269	-	-	-	138,269
Debt service	-	-	791,942	-	791,942
Management levy	-	-	-	106,490	106,490
Student activities	-	-	-	35,777	35,777
School infrastructure	-	71,251	-	-	71,251
Physical plant and equipment	-	105,326	-	-	105,326
Capital improvements	-	3,154,970	-	-	3,154,970
Unassigned	1,053,810	-	-	-	1,053,810
Total fund balances	1,192,079	3,331,547	791,942	142,267	5,457,835
Total liabilities, deferred inflows of resources and fund balances	\$ 4,148,211	\$ 4,667,125	\$ 1,319,692	\$ 418,398	\$ 10,553,426

See Notes to Financial Statements.

Northeast Community School District

**Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Position
June 30, 2014**

Total fund balances of governmental funds	\$ 5,457,835
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	15,918,676
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds	250,254
Accrued interest payable on long-term liabilities is not due and payable in the current period, and, therefore, is not reported as a liability in the governmental funds	(34,208)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(11,821,269)
Net position of governmental activities	<u>\$ 9,771,288</u>

See Notes to Financial Statements.

Northeast Community School District

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014**

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,928,023	\$ 171,224	\$ 457,040	\$ 244,145	\$ 2,800,432
Tuition	2,419,125	-	-	-	2,419,125
Other	179,819	63,391	21,866	311,448	576,524
State sources	3,111,342	435,193	201	107	3,546,843
Federal sources	199,486	-	-	-	199,486
Total revenues	7,837,795	669,808	479,107	555,700	9,542,410
Expenditures:					
Current:					
Instruction:					
Regular	3,321,760	188,564	-	75,654	3,585,978
Special	1,272,380	-	-	-	1,272,380
Other	603,558	-	-	335,490	939,048
	5,197,698	188,564	-	411,144	5,797,406
Support services:					
Student services	347,128	-	-	-	347,128
Instructional staff services	218,149	-	-	-	218,149
Administration services	878,227	-	-	5,079	883,306
Operation and maintenance of plant services	847,047	-	-	47,549	894,596
Transportation services	488,192	234,599	-	19,257	742,048
	2,778,743	234,599	-	71,885	3,085,227
Noninstructional programs	-	-	-	3,731	3,731
Other expenditures:					
Debt service:					
Principal	-	32,195	315,000	-	347,195
Interest and fiscal charges	-	4,827	162,507	-	167,334
Facilities acquisition	-	4,424,656	-	-	4,424,656
AEA flowthrough	207,731	-	-	-	207,731
	207,731	4,461,678	477,507	-	5,146,916
Total expenditures	8,184,172	4,884,841	477,507	486,760	14,033,280
Revenues under (over) expenditures	(346,377)	(4,215,033)	1,600	68,940	(4,490,870)
Other financing sources (uses):					
Issuance of capital loan notes	-	335,000	-	-	335,000
Issuance of notes payable	-	190,631	-	-	190,631
Interfund transfers in	-	-	177,538	-	177,538
Interfund transfers out	-	(177,538)	-	-	(177,538)
Total other financing sources (uses)	-	348,093	177,538	-	525,631
Net change in fund balance	(346,377)	(3,866,940)	179,138	68,940	(3,965,239)
Fund balances, beginning of year	1,538,456	7,198,487	612,804	73,327	9,423,074
Fund balances, end of year	\$ 1,192,079	\$ 3,331,547	\$ 791,942	\$ 142,267	\$ 5,457,835

See Notes to Financial Statements.

Northeast Community School District

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2014**

Net change in fund balances - total governmental funds \$ (3,965,239)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.:

Capital outlay	\$ 4,567,691	
Depreciation expense	<u>(501,363)</u>	4,066,328

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

4,282

The issuance of debt provides current financial resources to governmental funds; however, the issuance increases 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.

Issuance of capital loan notes	(335,000)	
Issuance of note payable	(190,631)	
Repayment of long-term debt	347,195	
Amortization of bond premium	11,945	
Change in accrued interest payable	<u>(6,340)</u>	(172,831)

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:

Early retirement	(37,195)	
Net OPEB liability	<u>(46,463)</u>	(83,658)

Change in net position of governmental activities	\$	<u>(151,118)</u>
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See Notes to Financial Statements.

Northeast Community School District

Statement of Net Position

Proprietary Fund

June 30, 2014

	<u>Enterprise Fund</u>
	School
	<u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 104,951
Accounts receivable	155
Inventories	6,821
Capital assets, net of accumulated depreciation	104,880
Total assets	<u>216,807</u>
Liabilities	
Accounts payable	1,784
Due to other funds	16,416
Unearned revenue	4,526
Net OPEB liability	2,347
Total liabilities	<u>25,073</u>
Net Position	
Net investment in capital assets	104,880
Unrestricted	86,854
Total net position	<u>\$ 191,734</u>

See Notes to Financial Statements.

Northeast Community School District

**Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund
Year Ended June 30, 2014**

	Enterprise Fund
	School
	Nutrition
	<u> </u>
Operating revenues:	
Local sources, charges for services	\$ 235,105
	<u> </u>
Operating expenses:	
Support services:	
Administration:	
Salaries	8,420
Benefits	4,555
Operation and maintenance of plant:	
Salaries	3,751
Benefits	1,651
Services	7,271
Total support services	<u>25,648</u>
Noninstructional programs:	
Food service operations:	
Salaries	126,516
Benefits	26,644
Purchased services	13,936
Supplies	271,279
Depreciation	13,395
	<u>451,770</u>
	<u> </u>
Total expenses	477,418
	<u> </u>
Operating (loss)	(242,313)
	<u> </u>
Nonoperating revenues:	
Interest on investments	326
State sources	7,377
Federal sources	219,615
Total nonoperating revenues	<u>227,318</u>
	<u> </u>
Change in net position	(14,995)
	<u> </u>
Net position, beginning of year	206,729
Net position, end of year	<u>\$ 191,734</u>

See Notes to Financial Statements.

Northeast Community School District

Statement of Cash Flows

Proprietary Fund

Year Ended June 30, 2014

	Enterprise Fund
	School
	Nutrition
	<u> </u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 235,105
Cash payments to employees for services	(171,009)
Cash payments to suppliers for goods or services	(261,466)
Net cash (used in) operating activities	<u>(197,370)</u>
Cash flows from noncapital financing activities:	
Proceeds from interfund accounts	16,416
State grants received	7,377
Federal grants received	189,625
Net cash provided by noncapital financing activities	<u>213,418</u>
Cash flows from capital financing activities, purchase of capital assets	<u>(9,643)</u>
Cash flows from investing activities, interest on investments	<u>326</u>
Net increase in cash and cash equivalents	6,731
Cash and cash equivalents, beginning of year	98,220
Cash and cash equivalents, end of year	<u>\$ 104,951</u>
Reconciliation of operating (loss) to net cash	
(used in) operating activities:	
Operating (loss)	\$ (242,313)
Adjustments to reconcile operating (loss) to net cash	
(used in) operating activities:	
Depreciation	13,395
Commodities used	29,990
Decrease in unearned revenue	-
Increase in accounts payable	1,030
Increase in net OPEB liability	528
Net cash (used in) operating activities	<u>\$ (197,370)</u>
Schedule of noncash items:	
Noncapital financing activities, federal commodities	<u>\$ 29,990</u>

See Notes to Financial Statements.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

Northeast Community School District is a political subdivision of the state of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. The courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Goose Lake, Iowa, and the predominately agricultural territory in Clinton 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 U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting entity:

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

Jointly governed organizations: The District participates in a jointly governed organization that provides services to the District but 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 Clinton County Assessor's Conference Board.

Basis of presentation:

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

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

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

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Restricted net position results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customer or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. The District does not have fiduciary funds. 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.

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities. The Capital Projects Fund includes the Statewide Sales, Services and Use Tax Account and the Physical Plant and Equipment Levy Account and the Other Capital Projects Account.

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

The District also has two nonmajor governmental funds:

Special revenue funds: Special revenue funds are used to account for the revenue sources that are legally restricted to expenditures for specific purposes. The District has the following special revenue funds:

The Management Fund is used to pay the costs of unemployment benefits, liability insurance, judgments, and certain early retirement benefits.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Student Activity Fund is used to support cocurricular programs.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows. The District has one proprietary fund type, the enterprise fund.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for the management accountability. The District's nonmajor proprietary fund is the Enterprise, School Nutrition Fund, used to account for the food service operations of the District.

Measurement focus and basis of accounting:

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

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

Revenues – exchange and nonexchange transactions: Property taxes, other taxes, grants, entitlements and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which it is budgeted. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Assets, liabilities and fund equity:

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

Cash, pooled investments and cash equivalents: The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and 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 maturity date no longer than three months.

Property tax receivable: Property tax in 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 that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. 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 unavailable in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The property tax revenue recognized in the governmental funds becomes due and collectible in September and March of the fiscal year with 1 ½ percent per month penalty for delinquent payments; is based on the January 1, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2013.

Due from other governments: Due from other governments represents amounts due from the state of Iowa, various shared revenues, grants and reimbursements from other governments.

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

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

Asset Class	Amount
Land	\$ 1
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	100,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	2 years
Furniture and equipment	5-20 years

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

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

Committed: Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned: Amounts the Board of Education intend to use for specific purposes. The authority to assign fund balances has been delegated to the Business Manager through the Board approved budget of the District.

Unassigned: All amounts not included in other spendable classifications as well as any deficit fund balance of any other governmental fund is reported as unassigned.

The District's flow of funds assumption prescribes that the funds with the highest level of constraint are expended first. If restricted or unrestricted funds are available for spending, the restricted funds are spent first. Additionally, if different levels of unrestricted funds are available for spending, the District considers committed funds to be expended first followed by assigned funds and then unassigned.

Deferred outflows/inflows of resources: In addition to assets, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance or net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District does not have deferred outflows of resources as of June 30, 2014.

In addition to liabilities, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable revenue in the governmental funds

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

balance sheet from the income surtax and property tax. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. In the District's government-wide statements, only the succeeding year property tax revenues remain as a deferred inflow of resources under the full accrual basis of accounting and will become an inflow in the year for which levied.

Net position: In proprietary funds, fiduciary funds, and government-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds of \$3,679,219. Net position is reported as restricted when there are limitations imposed on their use through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net position restricted through enabling legislation consists of \$71,251 for school infrastructure, \$105,326 for physical plant and equipment levy, \$106,490 for management levy and \$791,942 for debt service. All other restricted net position consists of \$138,269 for categorical funding and \$35,777 for student activities and are restricted by grantors and donors.

Net position flow assumption: Sometimes the District will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Long-term liabilities: In the District-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.

Interfund activity: Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates: The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and budgetary control:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures exceed the amounts budgeted in the instruction, support services, and noninstructional programs functions.

Note 2. Cash and Pooled Investments

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

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

As of June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Diversified Fund which are valued at an amortized cost of \$3,679,356 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Rating Service.

Note 3. Interfund Transfers and Due to/Due from Other Funds

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

Transfer To	Transfer From	Amount
Debt Service Fund	Capital Projects Fund	\$ 177,537

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The Capital Projects Fund transferred monies for debt service payment to the Debt Service Fund.

The detail of due to/due from other funds for the year ended June 30, 2014 is as follows:

Due to	Due from	Amount
School Nutrition	General Fund	\$ 16,416

Northeast Community School District

Notes to Basic Financial Statements

Note 4. Whole Grade Sharing

As allowed under Iowa Code Section 282, the District entered into a one-way whole sharing agreement with East Central Community School District (ECCSD) on June 23, 2010. Under the agreement, beginning fiscal year 2012, the District agrees to accept all ECCSD regular education students enrolled in grades 7 through 12 to attend regular classes in the District and allow participation in all extra-curricular activities. Tuition and programming for ECCSD students identified as requiring special education are provided for according to guidelines established by the State Department of Education. Special priority will be given by the District to ECCSD PreK through 6th grade students requiring special education services.

The ECCSD agrees to pay tuition to the District based on the number of ECCSD students enrolled in the District on October 1st of the first semester and March 1st of the second semester. Two payments of equal installments shall be made each semester. The payment due for each semester is one-half of the total sum of 90 percent of the State Regular District Cost plus 0.5 percent of the proportionate share of Teacher Salary Supplement Funds. The equivalent of 2 percent of the State Regular District Cost plus Teacher Salary Supplement Funds will be paid from the sales tax revenues, not to exceed 90 percent of the State Regular District Cost plus Teacher Salary Supplement Funds.

The term of the agreement began with the 2011-12 school fiscal year and was to renew each year thereafter so as to continue with a three year contract in effect at all times. In the event either party wishes to terminate the agreement, the termination may be accomplished by either party giving written notice to the other by the 15th day of December of any school year. The District recognized \$0 and \$536,361 of revenue in fiscal years 2014 and 2013, respectively, under the agreement and accepted approximately none and 95 students for fiscal years 2014 and 2013, respectively.

The District and ECCSD also entered into a Facility Improvement Program Agreement for the same term as the Whole Sharing Agreement. Under the Facility Improvement Program Agreement, ECCSD agreed to annually provide additional monies from sales tax revenues to benefit the ECCSD secondary students attending the District. In March of each year, the ECCSD was to estimate the amount of sales tax revenues to remit to the District for the Facility Improvement Program in the next school year. ECCSD was only obligated to restrict and remit sales tax revenues based on the number of Clinton and Jackson County resident secondary students from ECCSD who participated in the Whole Grade Sharing Agreement times 100 percent of the estimated Clinton and Jackson County sales tax dollars per student. ECCSD was to restrict the receipts beginning in November of each school year and conclude the following August with adjustments made the following November based on actual receipts. The District recognized \$0 and \$65,298 of revenue from this agreement as of June 30, 2014 and 2013, respectively.

Northeast Community School District

Notes to Basic Financial Statements

Note 4. Whole Grade Sharing (Continued)

On September 11, 2012, a referendum, authorized by the Mississippi Bend Area Education Agency, to vote on a petition to seek reorganization of the Preston Community School District and East Central Community School District passed. As a result, the two school districts combined to form Easton Valley Community School District beginning with the 2013-2014 year. The District's whole-grade sharing agreement is with the East Central Community School District. On December 14, 2012, the Board of the newly formed Easton Valley Community School District provided written notice to the District of its intent to cancel the agreement effective July 1, 2013 when the East Central Community School District ceased to exist. However, the District believes the Easton Valley Community School District does not have the authority to cancel the agreement until the East Central Community School District is dissolved. As East Central Community School District did not cancel the agreement by December 15, 2012, the District expected the whole-grade sharing agreement to remain until the 2015-2016 school year. The District sought a ruling in Clinton County District Court regarding the agreement. The court ruled the merger vote made the whole grade sharing agreement unenforceable. The District is currently appealing to the Iowa Supreme Court.

Note 5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets being depreciated:				
Buildings and improvements	\$ 30,981	\$ -	\$ -	\$ 30,981
Furniture and equipment	240,328	9,643	-	249,971
Total capital assets being depreciated	271,309	9,643	-	280,952
Less accumulated depreciation for:				
Buildings and improvements	1,240	620	-	1,860
Furniture and equipment	161,437	12,775	-	174,212
Total accumulated depreciation	162,677	13,395	-	176,072
Business-type activities capital assets, net	\$ 108,632	\$ (3,752)	\$ -	\$ 104,880

Northeast Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 202,905	\$ -	\$ -	\$ 202,905
Construction in progress	265,035	3,878,289	-	4,143,324
Total capital assets not being depreciated	467,940	3,878,289	-	4,346,229
Capital assets being depreciated:				
Buildings	14,101,197	346,368	-	14,447,565
Improvements other than buildings	1,490,839	-	-	1,490,839
Furniture and equipment	2,557,252	343,034	19,714	2,880,572
Total capital assets being depreciated	18,149,288	689,402	19,714	18,818,976
Less accumulated depreciation for:				
Buildings	3,573,596	287,086	-	3,860,682
Improvements other than buildings	791,135	66,299	-	857,434
Furniture and equipment	2,400,149	147,978	19,714	2,528,413
Total accumulated depreciation	6,764,880	501,363	19,714	7,246,529
Total capital assets being depreciated, net	11,384,408	188,039	-	11,572,447
Governmental activities capital assets, net	\$ 11,852,348	\$ 4,066,328	\$ -	\$ 15,918,676

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction, Regular	\$ 355,605
Support services:	
Administrative services	34,229
Operation and maintenance of plant services	8,694
Transportation	102,835
Total governmental activities depreciation expense	\$ 501,363
Business-type activities, food service operations	\$ 13,395

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 7,965,000	\$ -	\$ 315,000	\$ 7,650,000	\$ 355,000
General obligation bond premium	95,559	-	11,945	83,614	-
Qualified school construction bonds	3,302,000	-	-	3,302,000	-
Capital loan notes	-	335,000	32,195	302,805	31,105
Note payable	-	190,631	-	190,631	61,891
Early retirement	48,505	69,532	32,337	85,700	62,523
Net OPEB liability	160,056	46,463	-	206,519	-
Total	\$ 11,571,120	\$ 641,626	\$ 391,477	\$ 11,821,269	\$ 510,519
Business-type activities:					
Net OPEB liability	\$ 1,819	\$ 528	\$ -	\$ 2,347	\$ -

Early retirement: The District provided early retirement incentives for certain employees who met certain qualifications as established by the Board of Education. The cost of the incentives is borne by the District in whole. Eligible participants cannot, and do not, contribute to the incentive program.

Early retirement participation is based on the following criteria:

1. It is available to teachers and administrators who are at least 55 years of age. The Board of Directors reserves the right to limit the number of early retirements.
2. The employee has completed at least fifteen (15) years of service to the District or East Central District.
3. The employee will not be eligible if they received an official notice of layoff or termination or is subject to termination pursuant to Iowa Code Section 279.15 or 279.27.
4. The employee submits a written notification of their intent to apply for early retirement benefits within the timeframe specified in the Plan and following adoption of the Plan by the Board.

During the year ended June 30, 2013, 2 District employees requested early retirement, to be payable during the years ending June 30, 2014 and 2015. During the year ended June 30, 2014, 3 District employees requested early retirement, to be payable during the years ending June 30, 2015 and 2016. The final benefits to be paid to these employees will be in July 2015. The District paid \$32,337 of early retirement benefits approved during the year from the Management Fund.

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities (Continued)

General obligation bonds payable: The District issued \$2,800,000 general obligation bonds on May 1, 2004 to advance refund the District's May 1, 1995 general obligation bonds. Following are the details of the District's General Obligation Bonds Series 2004 as of June 30, 2014:

Year Ending June 30	General Obligation Bonds Series 2004			
	Interest Rates	Principal	Interest	Total
2015	3.40%	150,000	11,050	161,050

The District issued \$7,500,000 general obligation bonds on May 1, 2013 to build, furnish and equip an addition to and to remodel, repair, furnish and equip the existing middle school/high school building including site improvements and to build, improve, remodel, repair, and equip athletic facilities including site improvements. Principal is due annually beginning May 1, 2015. The bonds have interest rates ranging from 1 percent to 3.5 percent due semi-annually on November 1st and May 1st until maturity on May 1, 2033. Following are the details of the District's General Obligation Bonds Series 2013 as of June 30, 2014:

Year Ending June 30	General Obligation Bonds Series 2013			
	Interest Rates	Principal	Interest	Total
2015	1.00%	\$ 205,000	\$ 167,650	\$ 372,650
2016	1.00%	355,000	165,600	520,600
2017	1.00%	360,000	162,050	522,050
2018	1.00%	365,000	158,450	523,450
2019	1.00%	365,000	154,800	519,800
2020-2024	1.0-2.0%	1,910,000	688,050	2,598,050
2025-2029	2.0-3.0%	2,090,000	477,500	2,567,500
2030-2033	3.0-3.5%	1,850,000	157,200	2,007,200
		<u>\$ 7,500,000</u>	<u>\$ 2,131,300</u>	<u>\$ 9,631,300</u>

Qualified school construction bonds: The District issued \$3,302,000 of qualified school construction bonds (QSCB) bearing 3 percent interest on September 30, 2009 for construction of a fine arts building. Annual transfers of \$177,537 from the Capital Projects Fund to the debt sinking fund at Gateway State Bank are made through September 1, 2024, to pay the \$3,302,000 indebtedness due September 1, 2024. As of June 30, 2014, the District has \$760,938 in the debt sinking fund. The bonds are to be paid with statewide sales and use tax. Total principal and interest to be paid on the bonds is \$3,302,000. Statewide sales and use tax revenues for the year ended June 30, 2014 were \$435,118.

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities (Continued)

General obligation school capital loan notes series 2013: On September 5, 2013, the District issued \$335,000 of general obligation school capital loan notes to install air conditioning in the elementary and middle/high schools. Principal is due annually beginning June 1, 2014. The capital loan notes bear an interest rate of 1.95 percent due annually on June 1st until maturity on June 1, 2023. Following are the details of the District's General Obligation School Capital Loans Notes Series 2013 as of June 30, 2014:

Year Ending June 30	General Obligation Capital Loan Notes Series 2013			
	Interest Rates	Principal	Interest	Total
2015	1.95%	\$ 31,105	\$ 6,905	\$ 38,010
2016	1.95%	31,712	6,288	38,000
2017	1.95%	32,330	4,580	36,910
2018	1.95%	32,960	4,043	37,003
2019	1.95%	33,603	3,407	37,010
2020	1.95%	34,259	2,751	37,010
2021	1.95%	34,926	2,083	37,009
2022	1.95%	35,608	1,402	37,010
2023	1.95%	36,302	708	37,010
		<u>\$ 302,805</u>	<u>\$ 32,167</u>	<u>\$ 334,972</u>

Note payable: On July 15, 2013, the District issued a note payable to purchase two busses. Principal is due annually beginning July 15, 2014. The note payable bears an interest rate of 2.65 percent due annually on July 15 until maturity on July 15, 2016. Following are the details of the District's Note Payable as of June 30, 2014:

Year Ending June 30	Note Payable			
	Interest Rates	Principal	Interest	Total
2015	2.65%	\$ 61,891	\$ 5,052	\$ 66,943
2016	2.65%	63,530	3,412	66,942
2017	2.65%	65,210	1,733	66,943
		<u>\$ 190,631</u>	<u>\$ 10,197</u>	<u>\$ 200,828</u>

Northeast Community School District

Notes to Basic Financial Statements

Note 7. Other Postemployment Benefits (OPEB)

Plan description: The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 60 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark Blue Cross Blue Shield. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

Annual OPEB cost and net OPEB obligation: The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	55,519
Interest on net OPEB obligation		4,047
Adjustment to annual required contribution		(10,633)
Annual OPEB cost		<u>48,933</u>
Contributions made		<u>1,942</u>
Increase in net OPEB obligation		46,991
Net OPEB obligation beginning of year		<u>161,875</u>
Net OPEB obligation end of year	\$	<u><u>208,866</u></u>

Northeast Community School District

Notes to Basic Financial Statements

Note 7. Other Postemployment Benefits (OPEB) (Continued)

The District's transition year is June 30, 2010. 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 and the two preceding years are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	57,694	15.6%	121,266
June 30, 2013	45,426	10.6%	161,875
June 30, 2014	48,933	4.0%	208,866

Funded status and funding progress: As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$ 394,419, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 394,419. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,735,700 and the ratio of the UAAL to covered payroll was 10.56 percent. As of June 30, 2014, there were no trust fund assets.

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

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

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5 percent discount rate based on the District's funding policy and 3.0 percent inflation rate. The projected annual medical trend rate is 6 percent. Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000 on a 2/3 female, 1/3 male gender basis.

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

Northeast Community School District

Notes to Basic Financial Statements

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.95 percent of their annual covered salary and the District is required to contribute 8.93 percent of annual covered payroll for the year ended June 30, 2014. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$414,530, \$380,489, and \$330,672, respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

Note 10. Property Lease

The District currently has a lease with the City of Goose Lake for rental of rooms for the District's alternative school. Payments are \$800 per month until the District or City terminates the lease.

The District has a lease for a bus stop. Payments are \$1,000 per month until the District or property owner terminates the lease.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$207,731 for the year ended June 30, 2014 and is recorded in the General Fund.

Northeast Community School District

Notes to Basic Financial Statements

Note 12. Categorical Funding

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

Program	Amount
Limited English proficiency weighting	\$ 8,592
Talented and gifted	31,712
Dropout prevention	51,884
Market factor incentives	4,578
Early childhood empowerment program	6,160
Successful progression for early readers	16,173
Professional development for model core	15,168
Teacher development academy	2,622
Teacher leadership grants	1,380
Total	\$ 138,269

Note 13. Commitments and Contingencies

As of June 30, 2014, the District had entered into construction contracts totaling \$7,596,687 for various construction projects for school facilities. As of June 30, 2014, approximately \$3.6 million had been paid on these contracts at year-end.

Note 14. Governmental Accounting Standards Board (GASB) Statements

The District adopted the following statements during the year ended June 30, 2014:

GASB Statement No. 66, *Technical Corrections – 2012*. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement revises existing guidance for the financial reports of most pension plans. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

Northeast Community School District

Notes to Basic Financial Statements

Note 14. Governmental Accounting Standards Board (GASB) Statements (Continued)

The implementation of the above statements did not have a material impact to the District's financial statements.

As of June 30, 2014, GASB had issued several statements not yet required to be implemented by the District. The Statements which might impact the District are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, issued June 2012*, will be effective for the District beginning with its year ending June 30, 2015. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, is effective for the District beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*, issued November 2013, will be effective upon the implementation of GASB Statement No. 68, beginning with the year ending June 30, 2015. This Statement amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District's management has not yet determined the effect these GASB Statements will have on the District's financial statements.

Northeast Community School District

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2014**

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual
Revenues:			
Local sources	\$ 5,796,081	\$ 235,431	\$ 6,031,512
State sources	3,546,843	7,377	3,554,220
Federal sources	199,486	219,615	419,101
Total revenues	9,542,410	462,423	10,004,833
Expenditures/expenses:			
Instruction	5,797,406	-	5,797,406
Support services	3,085,227	25,648	3,110,875
Noninstructional programs	3,731	451,770	455,501
Other expenditures	5,146,916	-	5,146,916
Total expenditures/expenses	14,033,280	477,418	14,510,698
Excess (deficiency) of revenues over (under) expenditures/expenses	(4,490,870)	(14,995)	(4,505,865)
Other financing sources (uses):			
Issuance of bonds	335,000	-	335,000
Issuance of note payable	190,631	-	190,631
Interfund transfers in	177,538	-	177,538
Interfund transfers out	(177,538)	-	(177,538)
Total other financing sources (uses)	525,631	-	525,631
Net change in fund balance	(3,965,239)	(14,995)	(3,980,234)
Balance, beginning of year	9,423,074	206,729	9,629,803
Balance, end of year	\$ 5,457,835	\$ 191,734	\$ 5,649,569

See Note to Required Supplementary Information.

Budgeted Amounts		Final to Actual
Original	Final	Variance
\$ 5,444,397	\$ 5,444,397	\$ 587,115
3,103,408	3,103,408	450,812
398,000	398,000	21,101
<u>8,945,805</u>	<u>8,945,805</u>	<u>1,059,028</u>
5,600,000	5,600,000	(197,406)
3,077,500	3,077,500	(33,375)
426,500	426,500	(29,001)
8,632,957	8,632,957	3,486,041
<u>17,736,957</u>	<u>17,736,957</u>	<u>3,226,259</u>
<u>(8,791,152)</u>	<u>(8,791,152)</u>	<u>4,285,287</u>
7,500,000	7,500,000	(7,165,000)
-	-	190,631
200,000	200,000	(22,462)
-	-	(177,538)
<u>7,700,000</u>	<u>7,700,000</u>	<u>(7,174,369)</u>
<u>\$ (1,091,152)</u>	<u>\$ (1,091,152)</u>	<u>\$ (2,889,082)</u>

Northeast Community School District

Note to Required Supplementary Information – Budgetary Reporting

Note 1. Budgets and Budgetary Information

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary 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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

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

Northeast Community School District

**Required Supplementary Information
 Schedule of Funding Progress for the Retiree Health Plan
 Year Ended June 30, 2014**

Year Ended June 30:	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	7/1/2009	-	355,874	355,874	0.00%	3,320,000	10.72%
2011	7/1/2009	-	355,874	355,874	0.00%	3,726,000	9.55%
2012	7/1/2009	-	355,874	355,874	0.00%	3,392,000	10.49%
2013	7/1/2012	-	421,441	421,441	0.00%	3,498,800	12.05%
2014	7/1/2012	-	394,419	394,419	0.00%	3,735,700	10.56%

Fiscal Year 2010 was the transition year.

See Note 7 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Northeast Community School District

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014**

	Special Revenue		Total
	Management Levy	Student Activity	
Assets			
Cash and pooled investments	\$ 103,230	\$ 58,838	\$ 162,068
Receivables:			
Property tax:			
Current year	3,260	-	3,260
Succeeding year	253,000	-	253,000
Due from other governments	-	70	70
Total assets	\$ 359,490	\$ 58,908	\$ 418,398
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities, accounts payable	\$ -	\$ 23,131	\$ 23,131
Deferred inflows of resources, unavailable revenue:			
Succeeding year property tax	253,000	-	253,000
Fund balances:			
Restricted for:			
Management levy	106,490	-	106,490
Student activities	-	35,777	35,777
Total fund balances	106,490	35,777	142,267
Total liabilities, deferred inflows of resources and fund balances	\$ 359,490	\$ 58,908	\$ 418,398

Northeast Community School District

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2014

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 244,145	\$ -	\$ 244,145
Other	4,825	306,623	311,448
State sources	107	-	107
Total revenues	249,077	306,623	555,700
Expenditures:			
Current:			
Instruction:			
Regular	75,654	-	75,654
Other	-	335,490	335,490
Support services:			
Administration services	5,079	-	5,079
Operation and maintenance of plant services	47,549	-	47,549
Transportation services	19,257	-	19,257
Noninstructional programs	3,731	-	3,731
Total expenditures	151,270	335,490	486,760
Net change in fund balances	97,807	(28,867)	68,940
Fund balances, beginning of year	8,683	64,644	73,327
Fund balances, end of year	\$ 106,490	\$ 35,777	\$ 142,267

Northeast Community School District

Schedule of Combining Balance Sheet
 Capital Project Fund - By Account
 June 30, 2014

	Capital Projects Accounts			
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	Total
Assets				
Cash and pooled investments	\$ (1,629)	\$ 123,569	\$ 4,275,882	4,397,822
Receivables:				
Property tax:				
Current year	-	2,287	-	2,287
Succeeding year	-	187,042	-	187,042
Due from other governments	79,974	-	-	79,974
Total assets	\$ 78,345	\$ 312,898	\$ 4,275,882	\$ 4,667,125
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	7,094	20,530	1,120,912	1,148,536
Total liabilities	7,094	20,530	1,120,912	1,148,536
Deferred inflows of resources, unavailable revenue:				
Succeeding year property tax	-	187,042	-	187,042
Fund Balances, restricted for:				
School infrastructure	71,251	-	-	71,251
Physical plant and equipment	-	105,326	-	105,326
Capital improvements	-	-	3,154,970	3,154,970
Total fund balances	71,251	105,326	3,154,970	3,331,547
Total liabilities, deferred inflows of resources and fund balances	\$ 78,345	\$ 312,898	\$ 4,275,882	\$ 4,667,125

Northeast Community School District

Schedule of Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Capital Project Fund - By Account
 Year Ended June 30, 2014

	Capital Projects Accounts			Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	
Revenues:				
Local sources:				
Local tax	\$ -	\$ 171,224	\$ -	\$ 171,224
Other	38,180	595	24,616	63,391
State sources	435,118	75	-	435,193
Total revenues	473,298	171,894	24,616	669,808
Expenditures:				
Current:				
Instruction, regular	188,564	-	-	188,564
Support services:				
Transportation services	43,968	190,631	-	234,599
Other expenditures:				
Debt service:				
Principal	-	32,195	-	32,195
Interest and fiscal charges	-	4,827	-	4,827
Facilities acquisition	18,729	400,285	4,005,642	4,424,656
Total expenditures	251,261	627,938	4,005,642	4,884,841
Revenues over (under) expenditures	222,037	(456,044)	(3,981,026)	(4,215,033)
Other financing sources (uses):				
Issuance of capital loan notes	-	335,000	-	335,000
Issuance of note payable	-	190,631	-	190,631
Transfers out	(177,538)	-	-	(177,538)
Total other financing sources (uses)	(177,538)	525,631	-	348,093
Net change in fund balance	44,499	69,587	(3,981,026)	(3,866,940)
Fund balance, beginning of year	26,752	35,739	7,135,996	7,198,487
Fund balance, end of year	\$ 71,251	\$ 105,326	\$ 3,154,970	\$ 3,331,547

Northeast Community School District

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year Ended June 30, 2014**

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	\$ 207	\$ 6,962	\$ 7,134	\$ 35
Music	-	36,006	21,006	15,000
Cross Country	-	2,314	2,314	-
Golf	-	-	-	-
Golf Coed Fundraising	462	312	669	105
HS Cheerleading	225	664	572	317
Cheerleading Fundraiser	325	1,423	1,192	556
MS Boys Basketball	230	981	965	246
HS Boys Basketball	9,599	4,053	8,625	5,027
HS Boys Basketball Fundraising	2,781	1,384	4,034	131
MS Football	-	1,777	1,709	68
HS Football	6,174	6,805	7,961	5,018
HS Football Fundraising	12,076	10,039	19,416	2,699
HS Boys Soccer	(1,670)	4,695	2,963	62
HS Girls Soccer	3,085	3,326	6,361	50
Baseball	263	5,221	5,484	-
Baseball Fundraising	3,125	4,715	7,745	95
MS Boys Track	2,338	1,535	3,872	1
HS Boys Track	2,864	6,958	9,821	1
Boys Track Fundraising	-	1,606	1,606	-
Boys Golf	-	1,862	1,862	-
Girls Golf	-	1,821	1,812	9
MS Wrestling	3,861	774	1,072	3,563
HS Wrestling	-	2,421	1,590	831
Wrestling Fundraising	1,335	1,548	1,885	998
MS Girls Basketball	-	820	820	-
HS Girls Basketball	2,927	4,149	7,076	-
HS Girls Basketball Fundraising	1,589	9,130	10,718	1
MS Volleyball	1,900	1,335	702	2,533
HS Volleyball	1,624	4,106	5,485	245
HS Volleyball Fundraising	6,834	6,715	7,544	6,005
MS Girls Softball	-	500	495	5
HS Softball	-	3,694	3,689	5
HS Softball Fundraising	4,113	3,645	7,757	1
MS Girls Track	2,480	1,535	3,732	283
HS Girls Track	-	8,662	8,658	4
HS Girls Track Fundraising	-	3,375	3,375	-
Activity General Activities	3,585	24,364	27,440	509
Activity Interest Account	72	62	-	134
Student Center-Vending Commissions	377	346	-	723
Post Prom	1,669	3,935	1,508	4,096
Student Leadership	-	-	-	-

(Continued)

Northeast Community School District

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts (Continued)
Year Ended June 30, 2014**

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Spanish Club	\$ 5,584	\$ 7,419	\$ 11,728	\$ 1,275
Dance Team	488	1,164	1,164	488
S.A.D.D.	1,403	170	138	1,435
NHS Fundraising	498	-	400	98
FBLA	2,768	25,184	25,416	2,536
FCCLA	1,320	1,109	683	1,746
FTA	-	400	400	-
FFA	-	45,297	40,298	4,999
MS Student Council	1,484	642	1,026	1,100
HS Student Council	688	5,765	5,452	1,001
Class of 2009	-	-	-	-
Class of 2010	-	-	-	-
Class of 2011	-	-	-	-
Class of 2012	-	-	-	-
Class of 2013	823	-	823	-
Class of 2014	826	-	431	395
Class of 2015	2,923	-	2,446	477
Class of 2016	3,145	-	-	3,145
Class of 2017	-	-	-	-
Class of 2018	-	-	-	-
Class of 2019	-	-	-	-
6th Grade Store	1,279	-	600	679
Yearbook	730	-	51	679
Neat Treats Food Production	395	-	27	368
Economics Club	1,317	-	-	1,317
Speech	-	6,688	6,659	29
Vocal Music	-	24,230	24,230	-
Band	-	1,318	1,318	-
Lifting & Strength Conditioning	-	1,019	901	118
Interact Club	-	640	629	11
Activities deficit balances	(35,477)	3	1	(35,475)
Total	\$ 64,644	\$ 306,623	\$ 335,490	\$ 35,777

Northeast Community School District

**Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds - Modified Accrual Basis
Last Ten Years**

	Years Ended June 30:			
	2014	2013	2012	2011
Revenues:				
Local sources:				
Local tax	\$ 2,800,432	\$ 3,208,440	\$ 3,155,437	\$ 3,057,629
Tuition	2,419,125	2,179,509	2,056,092	1,568,952
Other	576,524	520,077	601,890	689,649
Intermediate sources	-	-	-	-
State sources	3,546,843	2,826,800	2,925,251	3,029,861
Federal sources	199,486	292,039	660,694	1,892,138
Total revenues	\$ 9,542,410	\$ 9,026,865	\$ 9,399,364	\$ 10,238,229
Expenditures:				
Instruction:				
Regular	\$ 3,585,978	\$ 3,294,447	\$ 3,209,518	\$ 3,061,683
Special	1,272,380	1,193,277	865,793	640,696
Other	939,048	764,566	946,346	783,121
Support services:				
Student services	347,128	377,449	357,757	305,332
Instructional staff services	218,149	227,329	182,879	143,256
Administration services	883,306	879,904	877,686	722,058
Operation and maintenance of plant services	894,596	766,431	740,695	621,402
Transportation services	742,048	450,451	463,838	538,438
Noninstructional programs	3,731	2,500	519	2,145
Other expenditures:				
Facilities acquisition	4,424,656	510,788	1,839,002	4,457,977
Long-term debt:				
Principal	347,195	475,000	290,000	280,000
Interest and fiscal charges	167,334	208,078	40,685	49,035
AEA flowthrough	207,731	192,298	192,652	216,762
Total expenditures	\$ 14,033,280	\$ 9,342,518	\$ 10,007,370	\$ 11,821,905

							Years Ended June 30:					
2010		2009		2008		2007		2006		2005		
\$	2,743,193	\$	2,649,113	\$	2,660,377	\$	2,692,210	\$	2,547,106	\$	2,580,192	
	1,361,457		1,249,924		1,047,153		860,319		713,013		522,446	
	376,759		328,051		345,411		317,999		328,816		379,225	
	-		-		29,470		36,864		38,159		36,975	
	2,447,461		2,812,220		2,727,325		2,777,706		2,772,517		2,654,881	
	440,984		198,624		99,773		115,911		106,236		150,752	
\$	7,369,854	\$	7,237,932	\$	6,909,509	\$	6,801,009	\$	6,505,847	\$	6,324,471	
\$	2,891,009	\$	2,866,720	\$	2,655,381	\$	2,512,909	\$	2,354,686	\$	2,310,146	
	734,869		742,209		677,998		704,686		612,022		615,999	
	861,437		779,628		748,162		680,686		690,736		651,797	
	266,469		243,906		228,253		227,253		209,714		198,822	
	131,282		137,313		121,472		108,100		138,799		147,828	
	683,221		676,707		629,884		590,011		608,683		607,246	
	590,053		612,086		561,162		573,790		555,690		464,450	
	386,027		388,819		679,148		502,626		446,526		420,152	
	2,023		1,665		5,469		2,901		2,663		1,386	
	426,884		350,732		137,763		157,320		134,943		284,933	
	354,948		593,791		380,000		370,000		360,000		2,940,000	
	60,833		73,026		77,462		85,858		93,423		263,183	
	214,498		199,657		195,507		192,793		186,543		185,900	
\$	7,603,553	\$	7,666,259	\$	7,097,661	\$	6,708,933	\$	6,394,428	\$	9,091,842	

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

To the Board of Education
Northeast Community School District
Goose Lake, Iowa

We have audited 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, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast 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, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast 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 Northeast Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeast Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2014-001 through 2014-003 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast 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 certain immaterial instances of noncompliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about Northeast Community School 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.

District's Response to Findings

Northeast Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Northeast 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bohnsack & Frommelt LLP

Overland Park, Kansas
November 21, 2014

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2014**

Part I: Findings Related to the Basic Financial Statements

Instances of noncompliance:

No matters were reported.

Material weaknesses:

2014-001

Finding: The District has insufficient segregation of duties over the cash disbursement function.

Condition: The Business Manager has access to set up or edit vendors in the system, has access to enter invoices into the system to be paid, prints checks, and reconciles bank statements. This position also has access to post entries to the general ledger, provides the monthly financial reports, and has access to District credit cards.

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to its completion.

Effect: Misappropriations of assets could occur and not be detected in a timely basis.

Cause: A limited number of personnel are involved in the cash disbursement function.

Recommendation: The District has implemented several changes to improve internal controls over cash disbursements including having the Administration Secretary, who is independent of check writing access, account for check sequence and requiring the bank to contact the Board President prior to processing wire transfers. In addition to these controls, we recommend the District consider restricting access in the expenditure module of the creation of new vendors and any modifications to vendors to someone independent of the Business Manager and removing user access level administration from the Business Manager to an employee independent of financial processes.

Response and corrective action plan: The District will realign and reassign duties where possible to improve internal controls over the District's transactions.

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2014**

2014-002

Finding: The District has insufficient segregation of duties over the payroll process.

Condition: The Business Manager has the ability to change the employee master file, including entering new employees, modifying pay rates and adding deductions; enters time to the payroll system, processes the payroll and generates payroll checks and direct deposits. This position also posts the payroll to the general ledger and reconciles the bank statements.

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to its completion.

Effect: Misappropriations of assets could occur and not be detected in a timely basis.

Cause: A limited number of personnel are involved in the payroll function.

Recommendation: The District has implemented several changes to improve internal controls over payroll including providing monthly payroll registers to the Superintendent to review and requiring the Administration Secretary, who is independent of check writing access, to account for check sequence. In addition to these controls, the District should restrict the Business Manager from all payroll master file edit access and from user access level administration of the financial software. An employee independent of the financial software should be the user access administrator. The Administrative Secretary should edit employee payroll information and enter new employees.

Response and corrective action plan: The District will realign and reassign duties where possible to improve internal controls over the District's transactions.

Conclusion: Response accepted.

2014-003

Finding: A properly designed system of internal control over financial reporting requires entities to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America. The District did not properly identify year-end accrual adjustments required to be reported in accordance with the applicable standards and principles.

Condition: Material audit adjustments to the District's trial balances were identified and proposed. In addition, the District continues to have unreconciled differences between the capital asset subsidiary ledgers and the balances reported on the District's trial balances. The adjustments included capital assets and accumulated depreciation, long-term debt, accounts receivable, revenue, deferred inflows of resources, and retainages payable.

Context: Audit adjustments were proposed for the General Fund, Capital Projects Fund, School Nutrition Fund, and Government-wide Capital Asset and Long-term Debt funds.

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2014**

Effect: Financial statements are materially misstated and errors are not detected in a timely basis.

Cause: The District does not reconcile all balance sheet accounts by fund on a periodic basis.

Recommendation: The District has continued to make changes in processes to improve financial reporting and reconciling. We recommend the District reconciles the balance sheet accounts to the subsidiary ledgers and workpapers at year-end. In particular, we recommend the District reconciles the capital asset and accumulated depreciation accounts and long-term debt accounts of the Government-wide Fund and School Nutrition Fund throughout the year.

Response and corrective action plan: The District will reconcile the balance sheet accounts to properly identify year-end adjustments and to resolve the unreconciled differences in capital asset subsidiary ledgers.

Conclusion: Response accepted.

Part II: Other Findings Related to Statutory Reporting

II-A-14

Certified Budget:

Finding: Expenditures for the year ended June 30, 2014, exceeded the amounts budgeted for instruction, support services, and noninstructional programs.

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

Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

II-B-14

Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-14

Travel Expense: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-14

Business Transactions: No business transactions between the District and District officials or employees were noted.

Northeast Community School District

Schedule of Findings and Responses Year Ended June 30, 2014

II-E-14

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

II-F-14

Board Minutes: No transactions requiring Board approval which had not been approved by the Board were noted. However, we noted the following:

Finding 1: The minutes of four Board of Education meetings selected from a sample of four were not published timely.

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

Response: The District will publish Board meeting minutes within two weeks as required.

Conclusion: Response accepted.

Finding 2: The Board of Education held a closed session on July 23, 2013. However, the minutes do not document that the session was closed by affirmative roll call vote of at least two-thirds of the members in accordance with Chapter 21.3 of the Code of Iowa.

Recommendation: The District should document the closed session was entered into by an affirmative roll call vote of at least two-thirds of the members.

Response: The District will document the sessions was closed by affirmative roll call vote of at least two-thirds of the members.

Conclusion: Response accepted.

II-G-14

Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

II-H-14

Supplementary Weighting: No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-14

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

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2014**

II-J-14

Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

II-K-14

Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-14

Statewide Sales and Services Tax: No instances of noncompliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales 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 and services tax revenue in the District's CAR:

Beginning balance		\$	26,752
Statewide sales and services tax revenue			435,118
Interest and other local revenues			38,180
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	207,293	
Equipment		43,968	251,261
Transfers out			177,538
Ending balance		\$	<u>71,251</u>

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

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.38000	\$ 317,647
Physical Plant and Equipment Levy (PPEL)	0.67000	117,471

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2014**

II-M-14

Financial Condition

Finding: The District had several deficit student activity fund accounts.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits. The District should implement procedures that prevent deficit spending from occurring.

Response: We will look at alternatives to eliminate negative activity fund accounts.

Conclusion: Response accepted.

II-N-14

Construction Expenditures

Finding: In a sample of two construction projects we noted the following:

- The District was unable to provide evidence of the notice of bid letting publication.
- The District was unable to provide evidence of the public hearing date.

Recommendation: We recommend the District maintain documentation of notice of bid lettering and public hearing dates and ensure that Code of Iowa requirements are followed.

Response: We will maintain all publication date documentation and refer to the Code of Iowa to ensure compliance with state requirements.

Conclusion: Response accepted