

**NORTH FAYETTE  
COMMUNITY SCHOOL DISTRICT  
WEST UNION, IOWA**

**FINANCIAL REPORT**

**JUNE 30, 2014**

TABLE OF CONTENTS

		<u>Page</u>
BOARD OF EDUCATION AND SCHOOL OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2-4
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		5-5e
<b>BASIC FINANCIAL STATEMENTS</b>	<b><u>Exhibit</u></b>	
District-Wide Financial Statements		
Statement of Net Position	A	6
Statement of Activities	B	7
Governmental Funds Financial Statements		
Balance Sheet	C	8-9
Statement of Revenues, Expenditures, and Changes in Fund Balances	D	10-11
Proprietary Funds Financial Statements		
Statement of Net Position	E	12
Statement of Revenues, Expenses, and Changes in Net Position	F	13
Statement of Cash Flows	G	14
Notes to Financial Statements		15-30
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds		31
Notes to Required Supplementary Information-Budgetary Reporting		32
Schedule of Funding Progress for the Retiree Health Plan		33
<b>OTHER SUPPLEMENTARY INFORMATION</b>	<b><u>Schedule</u></b>	
Nonmajor Governmental Funds		
Combining Balance Sheet	1	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	2	35
Nonmajor Special Revenue Funds		
Combining Balance Sheet	3	36
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	4	37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	38
Comparative Schedule of Revenues and Expenditures	6	39
Comparison of General Fund Revenues	7	40
Comparison of General Fund Expenditures	8	41
Operating Fund Financial Solvency	9	42
Spending Authority	10	43
Student Enrollment Data	11	44
General Fund Revenue Analysis	12	45
General Fund Expenditure Analysis	13	46
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 <i>GOVERNMENT AUDITING STANDARDS</i>		47-48
MANAGEMENT LETTER		49-52

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
-------------	--------------	----------------	---------------------

**Board of Education  
(Before September 2013 Election)**

Roy Guenther	President	West Union, Iowa	2015
Karen Michelson	Vice President	Fayette, Iowa	2013
Julie Ahrens	Board Member	Fayette, Iowa	2013
Kathy Wenthold	Board Member	West Union, Iowa	2013
Carolyn Roys	Board Member	West Union, Iowa	2013
Randy Tope	Board Member	West Union, Iowa	2015
Denise Johnson	Board Member	Waucoma, Iowa	2015

**Board of Education  
(After September 2013 Election)**

Roy Guenther	President	West Union, Iowa	2015
Karen Michelson	Vice President	Fayette, Iowa	2017
Julie Ahrens	Board Member	Fayette, Iowa	2017
James Clausen	Board Member	West Union, Iowa	2017
Carolyn Roys (resigned)	Board Member	West Union, Iowa	2017
Marc Rue (appointed)	Board Member	West Union, Iowa	2015
Randy Tope	Board Member	West Union, Iowa	2015
Denise Johnson	Board Member	Waucoma, Iowa	2015

**School Officials**

Duane Willhite – Superintendent  
Sue Thoms – District Secretary/Treasurer

**INDEPENDENT AUDITOR'S REPORT  
ON THE FINANCIAL STATEMENTS**

To the Board of Education  
North Fayette Community School District  
West Union, 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 North Fayette 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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 North Fayette Community School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## Other Matters

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and funding progress for the retiree health plan on pages 5 through 5e and pages 31 through 33 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 U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Fayette Community School District's basic financial statements. The combining and individual nonmajor fund financial statements, comparative financial information and general fund revenue and expenditure analysis for 2014 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, comparative financial information and general fund revenue and expenditure analysis for 2014 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 U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The spending authority and estimated enrollment is presented for purposes of additional analysis and is not a required part of the basic financial statements. On page 43 the spending authority for fiscal year 2014 has not been audited and we express no opinion on it. On page 44 the estimated enrollment for fiscal year 2015 has not been audited and we express no opinion on it.

We also have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of North Fayette Community School District as of and for the years ending June 30, 2008 through 2013, none of which is presented herein, and we expressed unmodified opinions on those basic financial statements. Those audits were conducted for purposes of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The schedule of revenues and expenditures of the governmental funds, the general fund revenues and expenditures, financial solvency, spending authority and student enrollment for the years 2008 through 2013 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2008 through 2013 basic financial statements. The information has been subjected to the auditing procedures applied in the audits of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information set forth in the required supplementary information for the years ending June 30, 2008 through 2013 appearing on pages 39 through 44, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived. The financial statements of North Fayette Community School District for the years ended June 30, 2005 through 2007 were audited by other auditors who expressed unmodified opinions on those financial statements. Their reports on the information presented on page 39 related to the 2005 through 2007 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2005 through 2007 financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of North Fayette Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 North Fayette Community School District's internal control over financial reporting and compliance.

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
November 10, 2014

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
WEST UNION, IOWA

Management's Discussion and Analysis  
For the Fiscal Year Ending June 30, 2014

Management of North Fayette Community School District provides this management's discussion and analysis of North Fayette Community School District's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014.

The intent of this discussion and analysis is to look at North Fayette Community School District's financial performance as a whole with comparisons to the previous fiscal year activities. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

In total, governmental net position increased by \$510,084. Statewide sales, services and use tax-capital project fund increased by \$274,343, property taxes levied decreased by \$50,336, and state grant revenue increased by \$894,553. District program expenses were 13.10% or \$1,340,967 more in 2014 than in 2013.

General fund revenues accounted for \$9,896,642 in revenue or 84.33% of all governmental revenues. General fund expenditures accounted for \$9,776,960 in expenditures or 84.52% of all governmental expenditures.

USING THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand North Fayette Community School District as a financial whole, or as an entire operating entity.

The statement of net position and statement of activities provide information about the activities of North Fayette Community School District as a whole and present an overall view of the District's finances and a longer-term view of those 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 North Fayette Community School District's operations in more detail than the District-wide statements by providing information about the most significant funds with all other nonmajor funds presented in total in a single column. For North Fayette Community School District, the general fund and statewide sales, services and use tax-capital project fund are the more 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 funds.

## REPORTING THE DISTRICT AS A WHOLE

### *The Statement of Net Position and the Statement of Activities*

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

The statement of net position presents all of the District's assets, deferred inflows of resources and liabilities, with the difference reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the statement of net position and statement of activities, the District is divided into two distinct kinds of activities:

**Governmental activities:** most of the District's programs and services are reported here, including instruction, co-curricular activities, support services, (nursing, guidance, media, administration), building and grounds operation and maintenance, and pupil transportation. Property tax and state aid finance most of these activities.

**Business-type activities:** these services are provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. The District's school nutrition program is included here.

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

### *Fund Financial Statements*

Fund financial reports provide more detailed information about the District's major funds. The District uses different funds in accordance with the Uniform Financial Accounting for Iowa LEA's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and statewide sales, services and use tax-capital project fund.

### *Governmental Funds*

Governmental funds account for most of the District's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps one to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

**REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS (Continued)**

*Governmental Funds (Continued)*

The District's governmental funds include the general fund, special revenue funds, debt service fund, and capital project funds. The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

*Proprietary Funds*

Services for which the District charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements. The proprietary funds required financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

A summary reconciliation between the District-wide financial statements and the fund financial statements follows the fund financial statements.

**DISTRICT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of financial position. The following is a summary perspective of the statement of net position of the District as a whole. The North Fayette Community School District's net positions at the end of fiscal year 2014 for governmental activities were \$10,109,917 and for business-type activities were \$219,020.

	Condensed Statement of Net Position (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2014	2013	2014	2013	2014	2013		
Current and other assets	\$ 9,304	\$ 8,430	\$ 111	\$ 83	\$ 9,415	\$ 8,513	10.60%	
Capital assets	8,434	8,364	135	139	8,569	8,503	0.78%	
<b>Total assets</b>	<b>17,738</b>	<b>16,794</b>	<b>246</b>	<b>222</b>	<b>17,984</b>	<b>17,016</b>	<b>5.69%</b>	
Long-term debt outstanding	1,822	2,091			1,822	2,091	-12.86%	
Other liabilities	1,745	1,115	27	32	1,772	1,147	54.49%	
<b>Total liabilities</b>	<b>3,567</b>	<b>3,206</b>	<b>27</b>	<b>32</b>	<b>3,594</b>	<b>3,238</b>	<b>10.99%</b>	
Deferred inflows of resources	4,061	3,988			4,061	3,988	1.83%	
<b>Net position</b>								
Net investment in capital assets	7,149	6,807	135	139	7,284	6,946	4.87%	
Restricted	2,624	2,232			2,624	2,232	17.56%	
Unrestricted	337	561	84	51	421	612	-31.21%	
<b>Total net position</b>	<b>\$ 10,110</b>	<b>\$ 9,600</b>	<b>\$ 219</b>	<b>\$ 190</b>	<b>\$ 10,329</b>	<b>\$ 9,790</b>	<b>5.51%</b>	

## DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the change in net position for the years ending June 30, 2014 and 2013:

	Changes in Net Position of Governmental Activities (Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2014	2013	2014	2013	2014	2013	
	2014	2013	2014	2013	2014	2013	Change
<b>Revenues:</b>							
Program revenue							
Charges for service	\$ 1,686	\$ 627	\$ 227	\$ 222	\$ 1,913	\$ 849	125.32%
Operating grants	1,405	1,294	238	232	1,643	1,526	7.67%
General revenue							
Property taxes	4,030	4,080			4,030	4,080	-1.23%
Sales tax and surtax	726	717			726	717	1.26%
Unrestricted state grants	3,712	3,637			3,712	3,637	2.06%
Unrestricted investment earnings	2	2			2	2	0.00%
Other revenue	101	100			101	100	1.00%
<b>Total revenues</b>	<b>11,662</b>	<b>10,457</b>	<b>465</b>	<b>454</b>	<b>12,127</b>	<b>10,911</b>	<b>11.14%</b>
<b>Program expenses:</b>							
Instruction	7,460	6,308			7,460	6,308	18.26%
Student support	2,661	2,532			2,661	2,532	5.09%
Non-instructional programs	12		436	462	448	462	-3.03%
Other expenses	1,019	944			1,019	944	7.94%
<b>Total expenses</b>	<b>11,152</b>	<b>9,784</b>	<b>436</b>	<b>462</b>	<b>11,588</b>	<b>10,246</b>	<b>13.10%</b>
Increase (decrease) in net position	510	673	29	(8)	539	665	-18.95%
Net position Beginning of Year	9,600	8,927	190	198	9,790	9,125	7.29%
Net position End of Year	<b>\$ 10,110</b>	<b>\$ 9,600</b>	<b>\$ 219</b>	<b>\$ 190</b>	<b>\$ 10,329</b>	<b>\$ 9,790</b>	<b>5.51%</b>

### INDIVIDUAL FUND ANALYSIS

As the District completed the year, its governmental funds reported a combined fund balance of \$3,506,298, a \$167,529 increase from the 2013 fiscal year end balance of \$3,338,769. The District spent \$1,608,251 more than the prior fiscal year.

- The general fund received more revenue during fiscal year 2014 through local revenue due to whole grade sharing. The general fund expenditures increased in instruction functional area \$1,059,023 compared to prior year. Overall expenditures increased by \$1,209,491. The ending fund balance showed an increase of \$119,682 to \$1,226,662.
- The statewide sales, services and use tax fund received more revenue during fiscal year 2014 through local option sales tax. The capital project fund expenditures increased due to parking lot improvements at the high school and West Union elementary and new roof on Fayette elementary building in the current year. Overall expenditures increased by \$177,412 compared to prior year. The ending fund balance showed an increase of \$274,343 to \$1,368,051.

**BUDGETARY HIGHLIGHTS**

The District’s Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute requires approval of the budget on or before April 15<sup>th</sup> of each year. The budget document presents functional expenditures by fund and the legal level of control is at the expense level by total instruction, total support services, total non-instructional programs, total other expenditures and total expenditures. The District amends the budget, as allowed by Iowa law, generally once per year to reflect the additional revenues and expenditures that may occur during the school year.

The following chart shows the original and amended budget for fiscal 2014 as well as the actual revenue and expenditures for the year:

<b>Budgetary Comparison Schedule</b>					
<b>(Expressed in Thousands)</b>					
	<b>Actual</b>	<b>Budget Amounts</b>		<b>Variance</b>	
		<b>Original</b>	<b>Final</b>		
<b>Revenues</b>					
Local sources	\$ 6,041	\$ 5,589	\$ 5,589	\$ 452	
Intermediate sources	15			15	
State sources	5,586	4,725	4,725	861	
Federal sources	558	462	462	96	
<hr/>					
Total revenues	\$ 12,200	\$ 10,776	\$ 10,776	\$ 1,424	
<hr/>					
<b>Expenditures</b>					
Instruction	\$ 7,557	\$ 6,835	\$ 7,335	\$ (222)	
Student support	2,680	2,720	2,820	140	
Non-instructional programs	448	500	500	52	
Other expenses	1,318	1,403	1,603	285	
<hr/>					
Total expenditures	\$ 12,003	\$ 11,458	\$ 12,258	\$ 255	
<hr/>					

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets*

At the end of fiscal year 2014, North Fayette Community School District had \$8,434,091 invested in a broad range of capital assets, including buildings, land and equipment for the governmental activities. For the enterprise funds, the District had \$135,053 invested in equipment in the school nutrition fund.

The District’s governmental activities had depreciation expense of \$557,127 for fiscal 2014 and total accumulated depreciation of \$8,875,647 as of June 30, 2014. More detailed information about the District’s capital assets is presented in Note 4 to the financial statements.

## CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

### *Debt*

At year-end, the District had approximately \$1,459,000 in bonds and other debt compared to approximately \$1,777,000 last year. More detail is presented in Note 5 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that districts can issue to 5 percent of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt is significantly below this \$12,545,671 limit.

Other obligations include capital leases and early retirement. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The District has experienced an increase in enrollment for the past year after declines in the previous few years. Enrollment is projected to stabilize with minor fluctuations over the next few years.
- The District has completed the first year of whole grade sharing with the Valley Community School District. In June 2014, both districts approved to extend this agreement through July 2018 along with approving a resolution to study the question of undergoing reorganization to take effect on or before July 2018.
- The District approved gifting land on the west border of the high school site to Kaleidoscope Kids Childcare Center. They are currently building on the site with a projected completion date of December 2014.
- An appraisal of the Hawkeye building was completed. With the whole grade sharing extension, the District is pursuing the sale of this building by November 2014.
- Further staff reductions including retirements will assist in keeping the District costs down.
- The District will also continue to seek ways to cut transportation and buildings/grounds costs.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of North Fayette Community School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Office, North Fayette Community School District, West Union, Iowa, 52175.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
June 30, 2014

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 4,226,331	\$ 108,523	\$ 4,334,854
Receivables			
Property tax			
Delinquent	56,698		56,698
Succeeding year	3,731,923		3,731,923
Accounts	27,159		27,159
Due from other governments	1,261,375		1,261,375
Inventories		2,878	2,878
Capital assets, non-depreciable	353,854		353,854
Capital assets, net of accumulated depreciation	8,080,237	135,053	8,215,290
Total assets	<u>\$ 17,737,577</u>	<u>\$ 246,454</u>	<u>\$ 17,984,031</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 838,217	\$ 2,738	\$ 840,955
Salaries and benefits payable	898,310	24,696	923,006
Accrued interest payable	8,213		8,213
Long-term liabilities			
Portion due within one year			
Bonds payable	115,000		115,000
Real estate contract	44,394		44,394
Capital leases	124,021		124,021
Early retirement	89,689		89,689
Compensated absences	14,389		14,389
Portion due after one year			
Bonds payable	925,000		925,000
Capital leases	76,234		76,234
Early retirement	70,136		70,136
Net OPEB liability	363,396		363,396
Total liabilities	<u>3,566,999</u>	<u>27,434</u>	<u>3,594,433</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Succeeding year property tax	3,731,923		3,731,923
Other	328,738		328,738
Total deferred inflows of resources	<u>4,060,661</u>	<u>-</u>	<u>4,060,661</u>
<b>NET POSITION</b>			
Net investment in capital assets	7,149,442	135,053	7,284,495
Restricted for			
Capital projects	1,368,051		1,368,051
Management levy purposes	514,348		514,348
Physical plant and equipment	216,250		216,250
Student activities	180,987		180,987
Categorical funding	344,005		344,005
Unrestricted	336,834	83,967	420,801
Total net position	<u>10,109,917</u>	<u>219,020</u>	<u>10,328,937</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,737,577</u>	<u>\$ 246,454</u>	<u>\$ 17,984,031</u>

See Notes to Financial Statements.

**This Page Intentionally Left Blank**

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
<b>Governmental activities</b>			
<b>Instruction</b>			
Regular instruction	\$ 4,482,941	\$ 994,549	\$ 900,136
Special instruction	1,441,173	189,274	14,583
Other instruction	1,536,180	16,041	141,354
	<u>7,460,294</u>	<u>1,199,864</u>	<u>1,056,073</u>
<b>Support services</b>			
Student services	267,880	461,069	
Instructional staff services	311,479		
Administration services	838,690		
Operation and maintenance plant services	715,625		
Transportation services	527,005	25,408	
	<u>2,660,679</u>	<u>486,477</u>	<u>-</u>
<b>Non-instructional</b>	<u>12,283</u>		
<b>Other</b>			
Long-term debt interest	60,948		
Facilities acquisition	51,228		
AEA flowthrough	349,020		349,020
Depreciation (unallocated)	557,127		
	<u>1,018,323</u>	<u>-</u>	<u>349,020</u>
<b>Total governmental activities</b>	<u>11,151,579</u>	<u>1,686,341</u>	<u>1,405,093</u>
<b>Business-type activities</b>			
<b>Non-instructional programs</b>			
Nutrition services	435,729	226,743	238,074
<b>Total</b>	<u>\$ 11,587,308</u>	<u>\$ 1,913,084</u>	<u>\$ 1,643,167</u>
<b>General revenues</b>			
Property taxes levied for			
General purposes			
Management			
PPEL			
Statewide sales, services and use tax			
Unrestricted state grants			
Unrestricted investment earnings			
Loss on sale of equipment			
Other			
<b>Total general revenues</b>			
<b>Change in net position</b>			
<b>Net position, beginning of year</b>			
<b>Net position, end of year</b>			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business-type Activities	Total
\$ (2,588,256)		\$ (2,588,256)
(1,237,316)		(1,237,316)
(1,378,785)		(1,378,785)
(5,204,357)	\$ -	(5,204,357)
193,189		193,189
(311,479)		(311,479)
(838,690)		(838,690)
(715,625)		(715,625)
(501,597)		(501,597)
(2,174,202)	-	(2,174,202)
(12,283)		(12,283)
(60,948)		(60,948)
(51,228)		(51,228)
-		-
(557,127)		(557,127)
(669,303)	-	(669,303)
(8,060,145)	-	(8,060,145)
	29,088	29,088
(8,060,145)	29,088	(8,031,057)
3,444,944		3,444,944
250,429		250,429
334,388		334,388
725,580		725,580
3,711,477		3,711,477
2,035	252	2,287
(73,362)		(73,362)
174,738		174,738
8,570,229	252	8,570,481
510,084	29,340	539,424
9,599,833	189,680	9,789,513
\$ 10,109,917	\$ 219,020	\$ 10,328,937

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

	General	Capital Project Fund Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 2,199,517	\$ 1,124,738	\$ 902,076	\$ 4,226,331
Receivables				
Property tax				
Delinquent	47,701		8,997	56,698
Succeeding year	3,139,358		592,565	3,731,923
Accounts	27,159			27,159
Due from other governments	944,170	314,205	3,000	1,261,375
<b>Total assets</b>	<b>\$ 6,357,905</b>	<b>\$ 1,438,943</b>	<b>\$ 1,506,638</b>	<b>\$ 9,303,486</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 764,837	\$ 70,892	\$ 2,488	\$ 838,217
Salaries and benefits payable	898,310			898,310
<b>Total liabilities</b>	<b>1,663,147</b>	<b>70,892</b>	<b>2,488</b>	<b>1,736,527</b>
<b>Deferred inflows of resources</b>				
Unavailable revenues				
Succeeding year property tax	3,139,358		592,565	3,731,923
Other	328,738			328,738
<b>Total deferred inflows of resources</b>	<b>3,468,096</b>	<b>-</b>	<b>592,565</b>	<b>4,060,661</b>
<b>Fund balances</b>				
Restricted for				
Categorical funding	344,005			344,005
Management levy purposes			514,348	514,348
Student activities			180,987	180,987
School infrastructure		1,368,051		1,368,051
Physical plant and equipment			216,250	216,250
Unassigned	882,657			882,657
<b>Total fund balances</b>	<b>1,226,662</b>	<b>1,368,051</b>	<b>911,585</b>	<b>3,506,298</b>
<b>Total liabilities, deferred inflows of resources     and fund balances</b>	<b>\$ 6,357,905</b>	<b>\$ 1,438,943</b>	<b>\$ 1,506,638</b>	<b>\$ 9,303,486</b>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

## RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET POSITION

Total governmental fund balances	\$ 3,506,298
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, net of accumulated depreciation of \$ 8,875,647	8,434,091
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(1,040,000)
Real estate contract	(44,394)
Capital leases	(200,255)
Accrued interest	(8,213)
Compensated absences	(14,389)
Early retirement	(159,825)
Net OPEB liability	(363,396)
Net position of governmental activities per Exhibit A	<u>\$ 10,109,917</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

	General	Capital Project Fund Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local sources				
Local property tax	\$ 3,444,944		\$ 584,817	\$ 4,029,761
Other	1,317,878		466,258	1,784,136
Intermediate sources	15,500			15,500
State sources	4,794,934	\$ 786,978	330	5,582,242
Federal sources	323,386			323,386
<b>Total revenues</b>	<b>9,896,642</b>	<b>786,978</b>	<b>1,051,405</b>	<b>11,735,025</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Regular instruction	4,407,918		168,540	4,576,458
Special instruction	1,441,173			1,441,173
Other instruction	1,006,427		533,210	1,539,637
	<b>6,855,518</b>	<b>-</b>	<b>701,750</b>	<b>7,557,268</b>
Support services				
Student services	282,565			282,565
Instructional staff services	311,479			311,479
Administration services	819,301		5,000	824,301
Operation and maintenance plant services	644,302		89,960	734,262
Transportation services	514,775		12,230	527,005
	<b>2,572,422</b>	<b>-</b>	<b>107,190</b>	<b>2,679,612</b>
Non-instructional			12,283	12,283
Other				
Long-term debt				
Principal			271,709	271,709
Interest and fiscal charges			64,569	64,569
Facilities acquisition		353,605	279,430	633,035
AEA flowthrough	349,020			349,020
	<b>349,020</b>	<b>353,605</b>	<b>615,708</b>	<b>1,318,333</b>
<b>Total expenditures</b>	<b>9,776,960</b>	<b>353,605</b>	<b>1,436,931</b>	<b>11,567,496</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>119,682</b>	<b>433,373</b>	<b>(385,526)</b>	<b>167,529</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in			336,278	336,278
Operating transfers (out)		(159,030)	(177,248)	(336,278)
	<b>-</b>	<b>(159,030)</b>	<b>159,030</b>	<b>-</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES</b>	<b>119,682</b>	<b>274,343</b>	<b>(226,496)</b>	<b>167,529</b>
<b>FUND BALANCE, beginning of year</b>	<b>1,106,980</b>	<b>1,093,708</b>	<b>1,138,081</b>	<b>3,338,769</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 1,226,662</b>	<b>\$ 1,368,051</b>	<b>\$ 911,585</b>	<b>\$ 3,506,298</b>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2014

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds	\$	167,529
 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, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation	\$ (557,127)	
Capital outlays	700,717	143,590
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		
		271,709
 The net effect of disposal of capital assets		
		(73,362)
 Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
		3,620
 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 governmental funds.		
Compensated absences	(1,719)	
Early retirement	48,029	
Net OPEB liability	(49,312)	(3,002)
 Change in net position of governmental activities per Exhibit B	 \$	 <u>510,084</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
June 30, 2014

	Enterprise Fund <u>School Nutrition</u>	Internal Service Fund <u>Employee Health</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 108,523	\$ 8,865
Inventories	2,878	
Total current assets	<u>111,401</u>	<u>8,865</u>
<b>NONCURRENT ASSETS</b>		
Furniture and equipment	270,611	
Less accumulated depreciation	<u>(135,558)</u>	
Total noncurrent assets	<u>135,053</u>	<u>-</u>
Total assets	<u>\$ 246,454</u>	<u>\$ 8,865</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,738	
Salaries and benefits payable	<u>24,696</u>	
Total liabilities	<u>27,434</u>	<u>\$ -</u>
<b>NET POSITION</b>		
Net investment in capital assets	135,053	
Unrestricted	<u>83,967</u>	<u>8,865</u>
Total net position	<u>219,020</u>	<u>8,865</u>
Total liabilities and net position	<u>\$ 246,454</u>	<u>\$ 8,865</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2014

EXHIBIT F

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
<b>OPERATING REVENUES</b>		
Local sources		
Charges for services	\$ 226,743	\$ 38,277
<b>OPERATING EXPENSES</b>		
Non-instructional programs		
Food service operations		
Salaries and benefits	174,086	
Supplies	244,227	
Depreciation	17,416	
Other		38,620
Total operating expenses	435,729	38,620
Operating loss	(208,986)	(343)
<b>NONOPERATING REVENUES</b>		
Interest income	252	12
State sources	3,747	
Federal sources	234,327	
Total nonoperating revenues	238,326	12
Change in net position	29,340	(331)
Net position, beginning of year	189,680	9,196
Net position, end of year	\$ 219,020	\$ 8,865

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2014

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sale of lunches and breakfasts	\$ 226,743	
Cash payments to employees for services	(171,024)	
Cash payments to suppliers for goods and services	(250,666)	
Cash reimbursed by operating fund		\$ 38,277
Cash payments by operating activities		(38,620)
	<u>(194,947)</u>	<u>(343)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State grants and federal grants received	238,074	-
	<u>238,074</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of equipment	(13,130)	-
	<u>(13,130)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	252	12
	<u>252</u>	<u>12</u>
Net increase (decrease) in cash	30,249	(331)
CASH, beginning of year	78,274	9,196
CASH, end of year	<u>\$ 108,523</u>	<u>\$ 8,865</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (208,986)	\$ (343)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	17,416	
Decrease in inventories	1,352	
Increase in salaries and benefits payable	3,062	
Decrease in deferred revenue	(6,450)	
Decrease in accounts payable	(1,341)	
	<u>(194,947)</u>	<u>(343)</u>

**Non-cash, noncapital financing activities:**

During the year ended June 30, 2014, the District received commodities valued at \$37,210.

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

---

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The North Fayette Community School District is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of West Union, Fayette and Hawkeye, Iowa, and the predominately agricultural territory in a portion of Fayette County. The District entered into a whole grade sharing agreement with Valley Community School District effective for fiscal year 2014. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a seven-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fund raising capabilities of its own. Final approval of the District's annual program and budget plans rests with the local Board of Education.

b. Significant Accounting Policies

*Scope of Reporting Entity*

For financial reporting purposes, North Fayette 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; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature or significance of their relationship with the District should be included in the financial statements as component units. The District has no component units which meet the Governmental Accounting Standards Board criteria.

*Joint Venture*

The District participates in a jointly governed organization that provides services to the District and meets the criteria of a joint venture since there is ongoing financial interest or responsibility by the participating governments. The District is a member of the Northeast Iowa Conference Schools 28E Retention Pool Trust.

*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 Fayette County Assessor's Conference Board.

*District-wide Financial Statements*

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

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*District-wide Financial Statements (Continued)*

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

*Fund Financial Statements*

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The general fund and the statewide sales, services and use tax-capital project fund are the major governmental funds for the District. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The major funds of the financial reporting entity are described below:

*Governmental*

*General Fund*

The general fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

*Capital Project Fund*

The capital project fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds. The major fund in this category is statewide sales, services and use tax.

*Proprietary Funds*

*Enterprise Fund*

The District's proprietary fund is the school nutrition fund. This fund is used to account for the food service operations of the District.

*Internal Service Fund*

The internal service fund is utilized to account for the financing of health insurance provided to the employees of the District.

*Measurement Focus*

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements.

On the District-wide statement of net position and the statement of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus as defined below in item b.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Measurement Focus (Continued)*

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available spendable resources.” Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.
- b. The District-wide statements and proprietary funds financial statements are accounted for on economic resources measurement focus. This means that all assets and liabilities, whether current or non-current, associated with its activity are included on the statement of net position. In reporting the financial activity on the proprietary funds statements, the District applies all applicable GASB pronouncements.

*Basis of Accounting*

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The District-wide and proprietary funds financial statements are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the District-wide statements and the statements for governmental funds.

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

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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 are recorded when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at time of purchase.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Basis of Accounting (Continued)*

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants, and reimbursements from other governments) and interest revenue. Revenues from miscellaneous sources are generally recognized when they are received in cash, as they are generally not measurable until actually received (tuition, fees and sale of services).

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

The District maintains its financial records on the modified cash basis (also referred to as cash basis or cash transactions). The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

*Assets, Liabilities, Deferred Inflows of Resources and 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. All investment activity is carried on by the District in each individual fund. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

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

*Property Tax Receivable*

Property taxes in the governmental fund are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

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

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Liabilities, Deferred Inflows of Resources and Equity (Continued)*

*Interfund Transactions*

During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the District-wide statements.

*Due from Other Governments*

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

*Inventories*

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

*Capital Assets*

Capital assets, which include property, furniture and equipment, and intangibles, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net position. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. 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	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School nutrition fund equipment	1,000
Other furniture and equipment	1,000
Intangibles	50,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years
Intangibles	5-10 years

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Liabilities, Deferred Inflows of Resources and Equity (Continued)*

*Salaries and Benefits Payable*

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2014 was used to calculate the salaries payable.

*Deferred Inflows of Resources*

In the fund financial statements certain revenues are measurable, however they are not available. Deferred inflows of resources represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of the succeeding year property tax receivable, unspent grant proceeds and income surtaxes. Deferred inflows of resources on the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, unspent grant proceeds, and income surtaxes.

*Long-term Obligation*

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. Early retirement liability has been paid primarily by the governmental management levy fund.

*Compensated Absences*

District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. Employees are not paid for unused vacation and sick benefits when employment with the District ends.

*Fund Balance*

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

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

Unassigned fund balance is the remaining fund balance which is not included in other spendable classifications.

*Net Position*

Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisitions, construction, or improvement of those assets.

Restricted net positions consists of net positions with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net positions are used first when an expense is incurred for purposes for both restricted and unrestricted net positions.

Unrestricted net positions represent the difference between assets and liabilities that are not restricted and can be used for future obligations of the District.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

*Assets, Liabilities, Deferred Inflows of Resources and Equity (Continued)*

*Budgets and Budgetary Accounting*

The budgetary comparison and related disclosures are reported as required supplementary information.

*Management Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and Pooled Investments

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

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Direct government obligation portfolio	\$ 54,102
Diversified portfolio	<u>2,294,954</u>
	<u>\$ 2,349,056</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

**Credit Risk**

The investments in the Iowa Schools Joint Investment Trust were rated AAAM by Standard & Poor's Financial Services.

NOTES TO FINANCIAL STATEMENTS

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2014:

Governmental		
General fund		
Title I	\$	29,923
State vocational aid		7,289
Valley Community School District		517,761
Income surtax		326,642
Various programs		62,555
		944,170
Capital project funds		
Statewide sales, services and use tax		314,205
Other		3,000
		317,205
	\$	1,261,375

4. Capital Assets

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

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Governmental activities				
Land	\$ 128,450			\$ 128,450
Construction in progress	73,362	\$ 225,404	\$ 73,362	225,404
				225,404
Total capital assets not being depreciated	201,812	225,404	73,362	353,854
Capital assets being depreciated				
Buildings	5,787,131	45,413		5,832,544
Improvements	4,780,372	87,520		4,867,892
Furniture and equipment	5,913,068	342,380		6,255,448
				6,255,448
Total capital assets being depreciated	16,480,571	475,313		16,955,884
Less accumulated depreciation for				
Buildings	2,358,344	118,239		2,476,583
Improvements	1,117,300	127,235		1,244,535
Furniture and equipment	4,842,876	311,653		5,154,529
				5,154,529
Total accumulated depreciation	8,318,520	557,127		8,875,647
Total capital assets being depreciated, net	8,162,051	(81,814)		8,080,237
Governmental activities				
Capital assets	\$ 8,363,863	\$ 143,590	\$ 73,362	\$ 8,434,091
Business-type activities				
Furniture and equipment	\$ 257,481	\$ 13,130		\$ 270,611
Less accumulated depreciation	118,142	17,416		135,558
				135,558
Business-type activities				
Capital assets, net	\$ 139,339	\$ (4,286)		\$ 135,053

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense was charged to the governmental functions of the District as follows:

Governmental activities	
Unallocated depreciation	\$ 557,127
Total depreciation expense-governmental activities	\$ 557,127
Business-type activities	
Food services	\$ 17,416

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	Amounts Due Within One Year
<b>Governmental activities</b>					
<b>Bonds</b>					
Revenue bonds	\$ 1,150,000		\$ 110,000	\$ 1,040,000	\$ 115,000
<b>Other liabilities</b>					
Capital leases	98,259		48,088	50,171	50,171
Real estate contract	86,473		42,079	44,394	44,394
Apple lease	221,626		71,542	150,084	73,850
Compensated absences	12,670	\$ 14,389	12,670	14,389	14,389
Early retirement	207,854	102,486	150,515	159,825	89,689
	626,882	116,875	324,894	418,863	272,493
<b>Governmental activities</b>					
Long-term liabilities	\$ 1,776,882	\$ 116,875	\$ 434,894	\$ 1,458,863	\$ 387,493

a. **Real Estate Contract**

The District entered into a real estate contract for the purchase of land for the construction of a bus barn. The note is due in annual installments of \$46,835 through May 15, 2015 including interest at 5.50%. The contract, which is secured by real estate, had a balance of \$44,394 at June 30, 2014.

Year ending June 30,	Principal	Interest
2015	\$ 44,394	\$ 2,441

5. **Long-term Debt Obligations (Continued)**

b. **Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay.

Early retirement benefits will be paid in six equal installments over a three year period beginning in July following the start of retirement. The second payment will be paid the following February, with subsequent payments each July and February for two more years.

At June 30, 2014, the District has obligations to 14 participants with a total liability of \$159,825. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$150,515.

c. **Bonded Indebtedness**

\$1,150,000 2007 School Infrastructure Local Option Sales and Services Tax Revenue bonds due annually in varying installments June 1, 2014 through June 1, 2022 plus interest semi-annually with interest rates of the bonds varying from 4.05% to 4.45%.

A summary of the bond principal and interest maturities is as follows:

Year ending June 30,	Principal	Interest
2015	\$ 115,000	\$ 44,575
2016	115,000	39,860
2017	120,000	35,088
2018	125,000	30,047
2019	130,000	24,735
2020-2022	435,000	38,875
	\$ 1,040,000	\$ 213,180

The School Infrastructure Local Option Sales and Services Tax Revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

c. Bonded Indebtedness (Continued)

The resolution providing for the issuance of the School Infrastructure Local Option Sales and Services Tax Revenue bonds includes the following provisions:

- a) \$217,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account. This amount is accounted for in the capital project funds.
- b) All proceeds from the local option sales and services tax shall be recorded as revenue.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

At June 30, 2014, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 250,913,419
Debt limit – 5% of total assessed valuation	\$ 12,545,671
Debt applicable to debt limit	
Capital leases	(200,255)
Real estate contract	(44,394)
Bonded debt outstanding	(1,040,000)
Legal debt margin	\$ 11,261,022

6. Capital Leases

The District has leased three buses and fifty Apple computers plus computer equipment under capital leases. The leased assets are accounted for in the statewide sales, services and use tax, a capital project fund. Capital assets under capital leases totaled \$200,255 at June 30, 2014. The following is a schedule of future minimum lease payments under the capital leases as of June 30, 2014:

	Year ending June 30,	Amount
	2015	\$ 130,412
	2016	78,070
		208,482
Less imputed interest		8,227
Present value of minimum lease payments		\$ 200,255

NOTES TO FINANCIAL STATEMENTS

7. **Interfund Transfers**

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

	Transfers In	Transfers Out
Statewide sales, services and use tax fund		\$ 159,030
Physical plant and equipment levy fund		177,248
Debt service fund	\$ 336,278	
<b>Total</b>	<b>\$ 336,278</b>	<b>\$ 336,278</b>

Transfers from the physical plant and equipment levy fund and the statewide sales, services and use tax fund to the debt service fund were to move resources from bond issuance to help pay bond expenses.

8. **Leases**

The District has entered into an operating lease agreement for copiers. The agreement is for five years and requires monthly payments until June 2015.

Future minimum lease payments under the lease agreement are as follows:

Year ended June 30,	
2015	\$ 44,532

Total lease expense for the year ended June 30, 2014 was \$23,234.

9. **Pension and Retirement Benefits**

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

Plan members are required to contribute 5.95%, 5.78%, and 5.38% of their annual covered salary and the District is required to contribute 8.93%, 8.67%, and 8.07% of annual covered salary for the years ended June 30, 2014, 2013, and 2012, respectively. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$431,969, \$436,360, and \$401,975, respectively, equal to the required contributions for each year.

10. **Other Postemployment Benefits (OPEB)**

*Plan Description*

As explained in Note 11, the District is a member of the Northeast Iowa Schools Insurance Trust (trust) which provides medical and prescription drug benefits for retirees and their spouses. North Fayette Community School District has 100 active and 17 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through the trust. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

*Funding Policy*

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

10. Other Postemployment Benefits (OPEB) (Continued)

*Annual OPEB Cost and Net OPEB Obligation*

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

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

Annual required contribution	\$	89,663
Interest on net OPEB obligation		7,852
Adjustment to annual required contribution		<u>(28,362)</u>
Annual OPEB cost		69,153
Contributions made		<u>(19,841)</u>
Increase in net OPEB obligation		49,312
Net OPEB obligation beginning of year		<u>314,084</u>
Net OPEB obligation end of year	\$	<u><u>363,396</u></u>

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

For the year ended June 30, 2014, the District contributed \$19,841 to the medical plan for the OPEB obligation. Plan members eligible for benefits contributed none of the premium costs for the OPEB obligation.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 100,751	19.39%	\$ 284,261
June 30, 2013	51,695	42.31%	314,084
June 30, 2014	69,153	28.69%	363,396

*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 \$585,462, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$585,462. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3.748 million, and the ratio of the UAAL to covered payroll was 15.61%. As of June 30, 2014, there were no trust fund assets.

10. Other Postemployment Benefits (OPEB) (Continued)

*Actuarial Methods and Assumptions*

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

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$559 to \$762, depending on the type of coverage, per month for retirees less than age 65 and the plan coverage terminates upon reaching Medicare eligibility (age 65). The salary increase rate was assumed to be 0% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

11. Employee Insurance Plan

Monthly payments of service fees and plan contributions are recorded as expenditures in the general fund at the time of payment to the Northeast Iowa Schools Insurance Trust (trust) maintained by Midwest Group Benefits Consultants, Inc. The trust's Board of Directors decided to terminate the self-funded health plans, effective July 1, 2009, and change to partially self-funded plans using fully insured health plans through Wellmark Blue Cross/Blue Shield. There were three new plans offered to the schools. The trust assumes liability for claims on its three plans as follows:

- Plan 1—between \$500 and \$5,000 for single coverage and \$1,000 and \$10,000 for family coverage,
- Plan 2—between \$1,000 and \$5,000 for single coverage and \$2,000 and \$10,000 for family coverage,
- Plan 3—between \$2,000 and \$5,000 for single coverage and \$4,000 and \$10,000 for family coverage.

All plans include coinsurance and plan 2 includes copayments. Claims in excess of the deductible are insured through the purchase of insurance. The District may be contingently liable for any claims in excess of funds available at June 30, 2014, since the pool arrangement allows the trust to make additional assessments to members. The District's share of the trust's liability for any unreported claim or assessment at June 30, 2014 was unavailable as of November 10, 2014. The District contributions to the trust for the years ended June 30, 2014, 2013, and 2012 were \$985,458, \$997,518 and \$924,323, respectively, which equaled the required contributions each year. The employees paid \$1,980 in dental insurance for the year ended June 30, 2014.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2014, no liability has been recorded in the District's financial statements. As of June 30, 2014, settled claims have not exceeded the risk pool or reinsurance company coverage.

12. Risk Management

North Fayette 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.

13. 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 \$349,020 for the year ended June 30, 2014 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

14. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose their deductible as well as having the option to have un-reimbursed medical and dependent care expenses deducted on a pre-tax basis. The District contributes \$710 per month for certified staff at least half time, \$655 for non-certified staff at least half time, and \$1,566 for administration staff. The difference between the District's contribution and the amount of health premium is put into a TSA or HSA of the employee's choice or subtracted from the employee's salary. There were 102 participants in the plan for the year ended June 30, 2014.

15. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2014, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

As discussed in Note 11, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

16. Commitments

The District has entered into an agreement with Valley Community School District for two-way whole grade sharing of grades 7 through 12; with grades 7 and 8 located at Valley Community School District and 9 through 12 located at North Fayette Community School District. The amount of expenditures for sharing instructional employee cost, coaching and athletic/activity cost, and instructional supplies and material cost, excluding equipment and furniture will be determined and then prorated based on the student population at the middle school or high school. The agreement expires June 30, 2018.

The total outstanding construction and purchase commitments of the District at June 30, 2014 amount to \$473,060 and commitments to be reimbursed is \$None.

17. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued one statement not yet implemented by the District. The statement which might impact the District is as follows:

GASB Statement 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities. In addition, the statement of net position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

The District's management has not yet determined the effect this statement will have on the District's financial statements.

18. Accounting Change

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*; and No. 66 *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, were implemented during fiscal year 2014.

19. Subsequent Events

Management has evaluated subsequent events through November 10, 2014, the date on which the financial statements were available to be issued.

**Required Supplementary Information**

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
For the Year Ended June 30, 2014

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
<b>REVENUES</b>			
Local sources	\$ 5,813,897	\$ 226,995	\$ 6,040,892
Intermediate sources	15,500		15,500
State sources	5,582,242	3,747	5,585,989
Federal sources	323,386	234,327	557,713
<b>Total revenues</b>	<b>11,735,025</b>	<b>465,069</b>	<b>12,200,094</b>
<b>EXPENDITURES/EXPENSES</b>			
Instruction	7,557,268		7,557,268
Support services	2,679,612		2,679,612
Non-instructional	12,283	435,729	448,012
Other	1,318,333		1,318,333
<b>Total expenditures/expenses</b>	<b>11,567,496</b>	<b>435,729</b>	<b>12,003,225</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES</b>	<b>167,529</b>	<b>29,340</b>	<b>196,869</b>
<b>FUND BALANCE, beginning of year</b>	<b>3,338,769</b>	<b>189,680</b>	<b>3,528,449</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 3,506,298</b>	<b>\$ 219,020</b>	<b>\$ 3,725,318</b>

See Notes to Required Supplementary Information.

<u>Budget Amounts</u> <u>Original</u>	<u>Amended</u> <u>Final</u>	<u>Final to</u> <u>Actual</u> <u>Variance-</u> <u>Positive</u> <u>(Negative)</u>
\$ 5,589,286	\$ 5,589,286	\$ 451,606
		15,500
4,725,180	4,725,180	860,809
462,000	462,000	95,713
<u>10,776,466</u>	<u>10,776,466</u>	<u>1,423,628</u>
6,835,000	7,335,000	(222,268)
2,719,700	2,819,700	140,088
500,000	500,000	51,988
1,403,265	1,603,265	284,932
<u>11,457,965</u>	<u>12,257,965</u>	<u>254,740</u>
(681,499)	(1,481,499)	1,678,368
2,868,408	2,868,408	660,041
<u>\$ 2,186,909</u>	<u>\$ 1,386,909</u>	<u>\$ 2,338,409</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2014

---

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs, and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$800,000.

During the year ended June 30, 2014, expenditures in the instruction function exceeded the amounts budgeted.

See Independent Auditor's Report.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS FOR THE  
 RETIREE HEALTH PLAN  
 (in thousands)

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 691	\$ 691	0.0%	\$ 4,792	14.4%
2010	July 1, 2008	-	\$ 676	\$ 676	0.0%	\$ 4,686	14.4%
2011	July 1, 2010	-	\$ 606	\$ 606	0.0%	\$ 4,092	14.8%
2012	July 1, 2010	-	\$ 595	\$ 595	0.0%	\$ 3,923	15.2%
2013	July 1, 2012	-	\$ 603	\$ 603	0.0%	\$ 4,588	13.1%
2014	July 1, 2012	-	\$ 585	\$ 585	0.0%	\$ 3,748	15.6%

See Note 10 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See Independent Auditor's Report.

**Other Supplementary Information**

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 June 30, 2014

	Special Revenue Funds	Capital Project Fund Physical Plant and Equipment Levy	Debt Service	Total Nonmajor Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 693,934	\$ 208,142		\$ 902,076
Receivables				
Property tax				
Delinquent	3,889	5,108		8,997
Succeeding year	250,000	342,565		592,565
Due from other governments		3,000		3,000
	<u>947,823</u>	<u>558,815</u>	<u>-</u>	<u>1,506,638</u>
	\$	\$	\$	\$
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,488			\$ 2,488
	<u>2,488</u>	<u>-</u>	<u>-</u>	<u>2,488</u>
<b>Deferred inflows of resources</b>				
Unavailable revenues				
Succeeding year property tax	250,000	342,565		592,565
	<u>250,000</u>	<u>342,565</u>	<u>-</u>	<u>592,565</u>
<b>Fund balances</b>				
Restricted for				
Management levy purposes	514,348			514,348
Student activities	180,987			180,987
Physical plant and equipment		216,250		216,250
	<u>695,335</u>	<u>216,250</u>	<u>-</u>	<u>911,585</u>
	\$	\$	\$	\$
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 947,823</u>	<u>\$ 558,815</u>	<u>\$ -</u>	<u>\$ 1,506,638</u>

See Independent Auditor's Report.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2014

	Special Revenue Funds	Capital Project Fund Physical Plant and Equipment Levy	Debt Service	Total Nonmajor Funds
<b>REVENUES</b>				
Local sources				
Property taxes	\$ 250,429	\$ 334,388		\$ 584,817
Other	466,153	105		466,258
State sources	143	187		330
<b>Total revenues</b>	<b>716,725</b>	<b>334,680</b>	<b>\$ -</b>	<b>1,051,405</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Regular instruction	168,540			168,540
Other instruction	529,753	3,457		533,210
Support services				
Administration services	5,000			5,000
Operation and maintenance plant services	89,960			89,960
Transportation services	12,230			12,230
Non-instructional	12,283			12,283
Other				
Facilities acquisition		279,430		279,430
Long-term debt				
Principal			271,709	271,709
Interest and fiscal charges			64,569	64,569
<b>Total expenditures</b>	<b>817,766</b>	<b>282,887</b>	<b>336,278</b>	<b>1,436,931</b>
<b>(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES</b>	<b>(101,041)</b>	<b>51,793</b>	<b>(336,278)</b>	<b>(385,526)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			336,278	336,278
Transfers (out)		(177,248)		(177,248)
	-	(177,248)	336,278	159,030
<b>(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) OVER EXPENDITURES AND FINANCING USES</b>	<b>(101,041)</b>	<b>(125,455)</b>	<b>-</b>	<b>(226,496)</b>
FUND BALANCE, beginning of year	796,376	341,705	-	1,138,081
FUND BALANCE, end of year	\$ 695,335	\$ 216,250	\$ -	\$ 911,585

See Independent Auditor's Report.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 June 30, 2014

	Student Activity	Management Levy	Total Nonmajor Special Revenue Funds
<b>ASSETS</b>			
Cash and pooled investments	\$ 183,475	\$ 510,459	\$ 693,934
Receivables			
Property tax			
Delinquent		3,889	3,889
Succeeding year		250,000	250,000
Total assets	\$ 183,475	\$ 764,348	\$ 947,823
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 2,488		\$ 2,488
Total liabilities	2,488	\$ -	2,488
<b>Deferred inflows of resources</b>			
Unavailable revenues			
Succeeding year property tax		250,000	250,000
Total deferred inflows of resources	-	250,000	250,000
<b>Fund balances</b>			
Restricted for			
Management levy purposes		514,348	514,348
Student activities	180,987		180,987
	180,987	514,348	695,335
Total liabilities, deferred inflows of resources and fund balances	\$ 183,475	\$ 764,348	\$ 947,823

See Independent Auditor's Report.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 For the Year Ended June 30, 2014

	Student Activity	Management Levy	Total Nonmajor Special Revenue Funds
<b>REVENUES</b>			
Local sources			
Local property tax		\$ 250,429	\$ 250,429
Other	\$ 461,775	4,378	466,153
State sources		143	143
Total revenues	461,775	254,950	716,725
<b>EXPENDITURES</b>			
Current			
Instruction			
Regular instruction		168,540	168,540
Other instruction	529,753		529,753
Support services			
Administration services		5,000	5,000
Operation and maintenance plant services		89,960	89,960
Transportation services		12,230	12,230
Non-instructional		12,283	12,283
Total expenditures	529,753	288,013	817,766
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES	(67,978)	(33,063)	(101,041)
FUND BALANCE, beginning of year	248,965	547,411	796,376
FUND BALANCE, end of year	\$ 180,987	\$ 514,348	\$ 695,335

See Independent Auditor's Report.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
For the Year Ended June 30, 2014

	Balance June 30, 2013	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2014
<b>Elementary School Activities:</b>				
Playground - fundraising	\$ 902			\$ 902
Fayette attendance		\$ 501	\$ 501	-
Hawkeye attendance - fundraising	4,835	1,175	3,667	2,343
West Union attendance - fundraising	4,098	9,445	5,045	8,498
Interest	1,428	43		1,471
NF Shop - resale	1,037	4,474	3,215	2,296
<b>Middle School Activities:</b>				
Athletics	2,971	57	207	2,821
Pop machine	3,058	780	201	3,637
Tag	11			11
Musical	3,942	208	1,758	2,392
Hawk athletics	2,424		852	1,572
<b>High School Activities:</b>				
Athletics	56,095	123,265	124,459	54,901
Interest		626	626	-
Speech		1,599	1,516	83
Speech fall play	6,512			6,512
Vocal music	4,296	6,002	6,991	3,307
Musical	6,795	6,231	5,426	7,600
Band	3,763	1,942	4,330	1,375
Art club	625	500	377	748
Yearbook	3,074	16,044	11,840	7,278
BPA	2,375	2,402	1,713	3,064
FFA	30,174	100,973	105,284	25,863
FHA	614	35		649
Honor Society	126		126	-
Student Council	1,860	8,208	6,565	3,503
Math/Science	1,055	7,846	7,887	1,014
German program	5,606		50	5,556
Spanish	3,122	121	1,783	1,460
Spanish bound	1,198	19,685	20,883	-
Cheerleading	741	4,565	3,670	1,636
Danceline	3,294	11,789	9,755	5,328
<b>Class of:</b>				
Alumni	1,518		(11)	1,529
2014	1,535		1,535	-
2015	1,379	8,266	8,420	1,225
2016		2,016	200	1,816
Activity ticket		11,873	11,154	719
Graduation fees		840	840	-
STW - Enterprise	4,818	67,100	70,080	1,838
Mini Arts Festival	2,868			2,868
HS Hawk store	143			143
Special Olympics	3,720	877	729	3,868
Tigerhawk Music	363		363	-
Tigerhawk Athletics	76,590	42,287	107,716	11,161
	<u>\$ 248,965</u>	<u>\$ 461,775</u>	<u>\$ 529,753</u>	<u>\$ 180,987</u>

See Independent Auditor's Report.

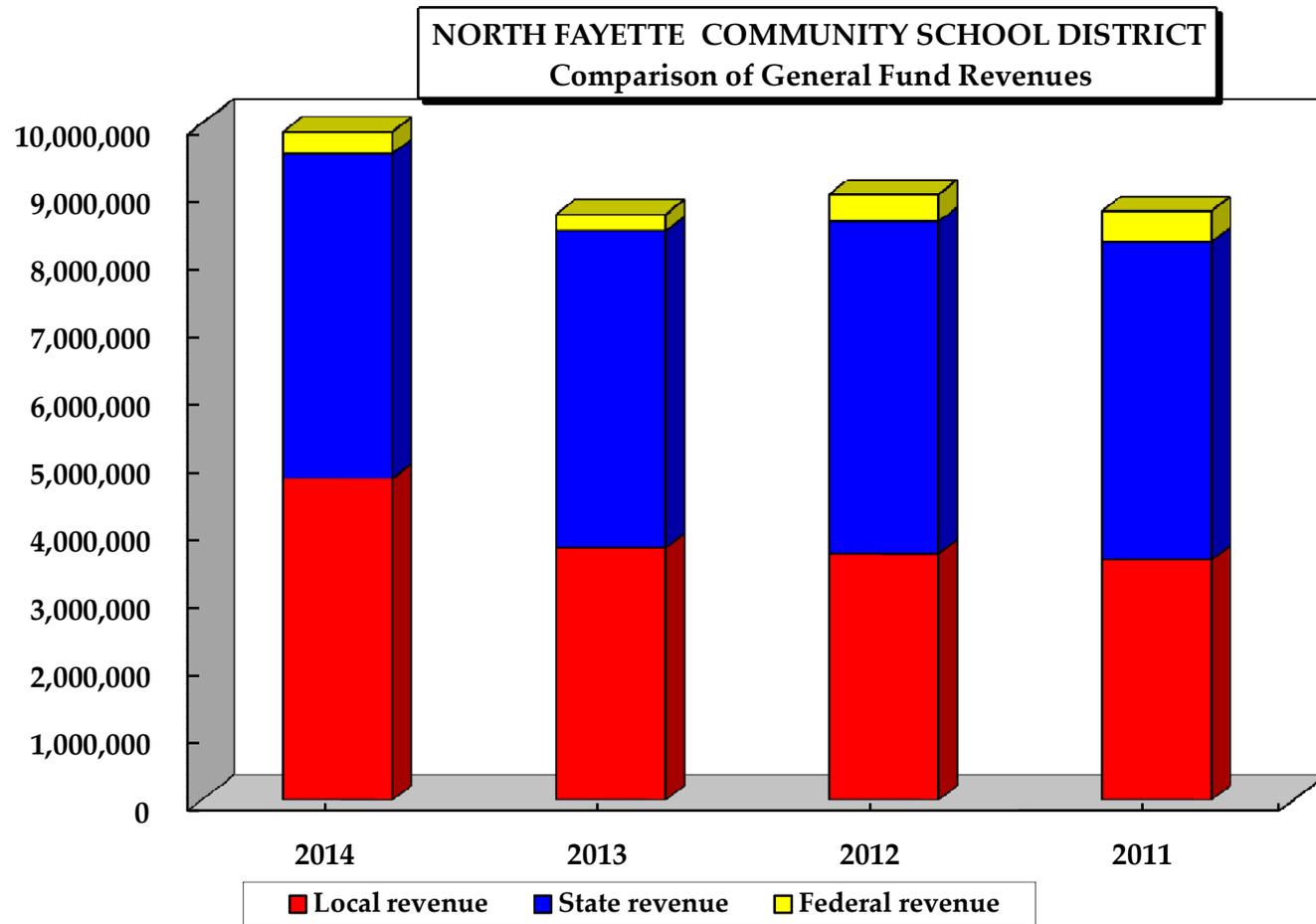
**This Page Intentionally Left Blank**

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
 GOVERNMENTAL FUNDS  
 For the Years Ended June 30,

	Modified Accrual			
	2014	2013	2012	2011
<b>REVENUES</b>				
Local sources				
Local tax	\$ 4,029,761	\$ 4,080,097	\$ 4,006,743	\$ 3,833,759
Tuition				173,605
Other	1,784,136	1,443,960	1,454,521	1,212,913
Intermediate sources	15,500	4,059	1,069	
State sources	5,582,242	4,687,689	4,916,972	4,702,410
Federal sources	323,386	245,936	398,949	470,172
<b>Total revenues</b>	<b>\$ 11,735,025</b>	<b>\$ 10,461,741</b>	<b>\$ 10,778,254</b>	<b>\$ 10,392,859</b>
<b>EXPENDITURES</b>				
Current				
Instruction				
Regular instruction	\$ 4,576,458	\$ 3,847,607	\$ 3,701,551	\$ 4,000,235
Special instruction	1,441,173	1,265,458	1,260,438	1,224,310
Other instruction	1,539,637	1,297,577	1,294,790	1,355,178
Support services				
Student services	282,565	296,433	332,178	329,961
Instructional staff services	311,479	258,853	224,346	220,441
Administration services	824,301	815,540	890,391	849,450
Operation and maintenance plant services	734,262	688,409	678,405	668,806
Transportation services	527,005	460,655	468,876	470,649
Other				
Facilities acquisition	633,035	270,780	557,912	1,013,022
Long-term debt				
Principal	271,709	340,998	261,986	263,178
Interest and fiscal charges	64,569	78,420	82,102	83,173
AEA flowthrough	349,020	338,515	339,978	380,930
<b>Total expenditures</b>	<b>\$ 11,555,213</b>	<b>\$ 9,959,245</b>	<b>\$ 10,092,953</b>	<b>\$ 10,859,333</b>

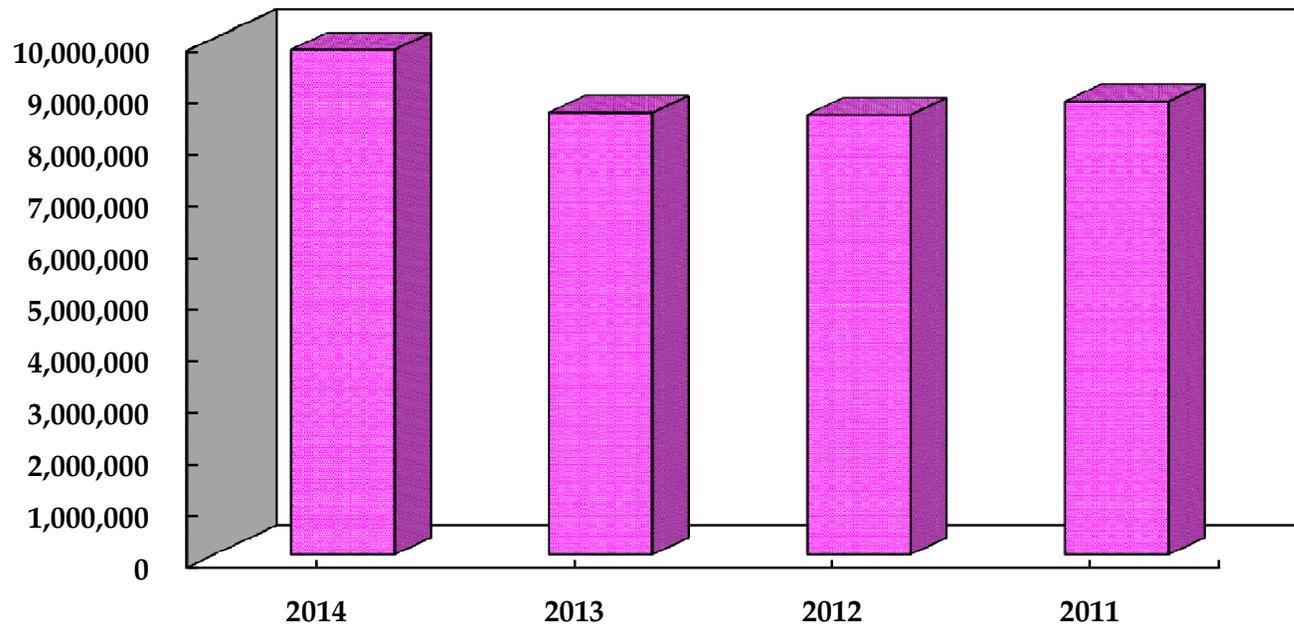
See Independent Auditor's Report.

Modified Accrual					
2010	2009	2008	2007	2006	2005
\$ 3,788,960	\$ 3,589,066	\$ 3,574,782	\$ 3,972,590	\$ 3,828,672	\$ 3,871,344
178,394	170,160	185,900	179,932	178,189	168,181
956,330	1,331,429	1,455,768	1,020,161	573,398	528,874
				750	51,640
4,136,849	5,123,655	5,220,404	4,926,840	4,488,172	4,231,743
752,086	335,251	225,193	240,238	315,821	279,263
<u>\$ 9,812,619</u>	<u>\$ 10,549,561</u>	<u>\$ 10,662,047</u>	<u>\$ 10,339,761</u>	<u>\$ 9,385,002</u>	<u>\$ 9,131,045</u>
\$ 3,838,255	\$ 3,990,281	\$ 4,015,185	\$ 3,923,888	\$ 3,737,695	\$ 3,786,343
1,049,182	1,180,888	1,052,349	1,108,027	1,020,967	869,707
1,446,876	1,264,914	1,084,304	975,240	1,114,113	933,325
308,378	296,834	290,287	279,887	272,124	224,712
210,354	238,041	222,659	182,007	230,290	256,867
816,489	856,444	889,189	815,604	774,339	677,941
774,120	781,580	788,831	1,015,021	715,398	776,970
416,350	430,982	471,904	464,843	396,250	401,072
776,688	1,191,661	1,119,191	2,234,761	532,183	105,727
220,114	212,847	375,673	368,588	362,478	295,000
81,137	89,404	104,328	75,253	71,740	134,404
379,576	355,848	348,651	339,590	316,945	313,183
<u>\$ 10,317,519</u>	<u>\$ 10,889,724</u>	<u>\$ 10,762,551</u>	<u>\$ 11,782,709</u>	<u>\$ 9,544,522</u>	<u>\$ 8,775,251</u>



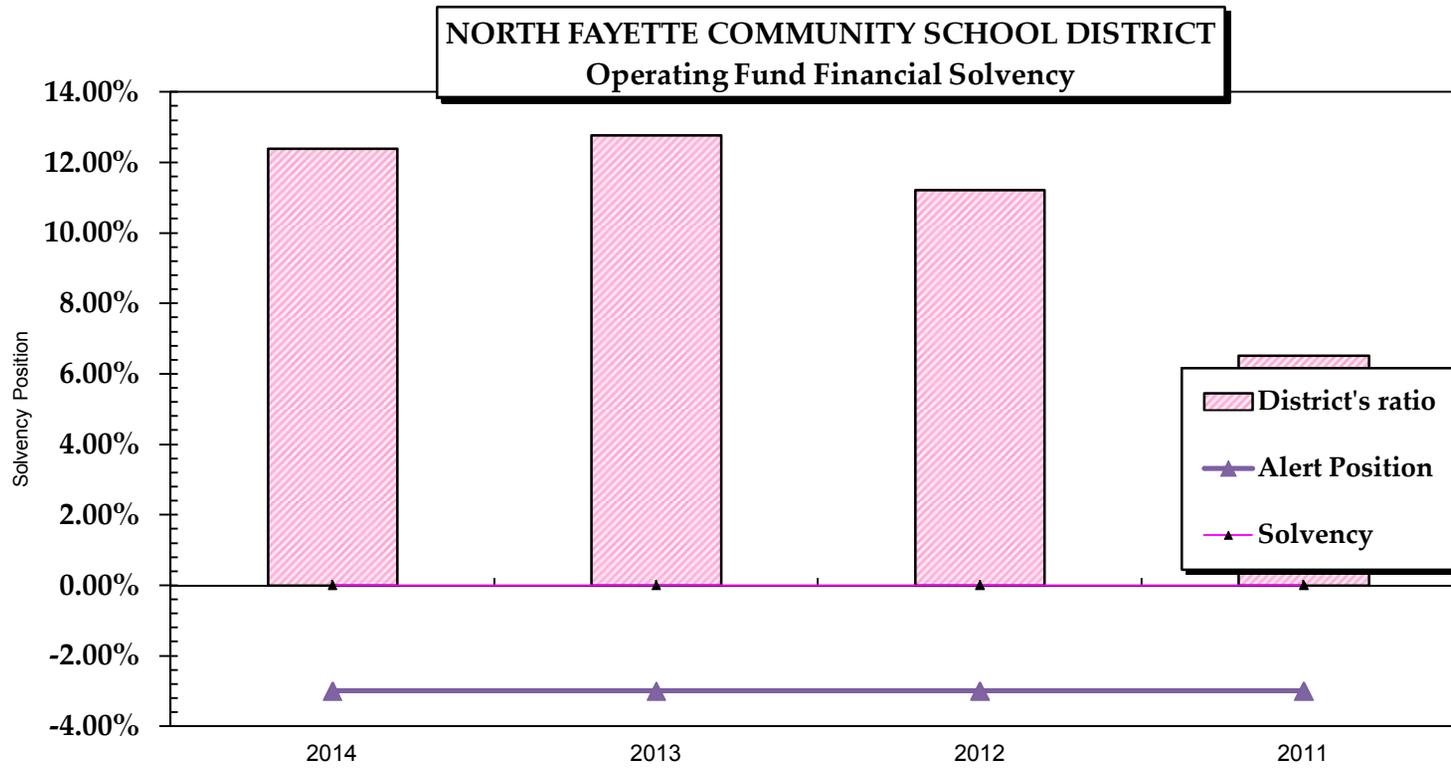
See Independent Auditor's Report.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Comparison of General Fund Expenditures**



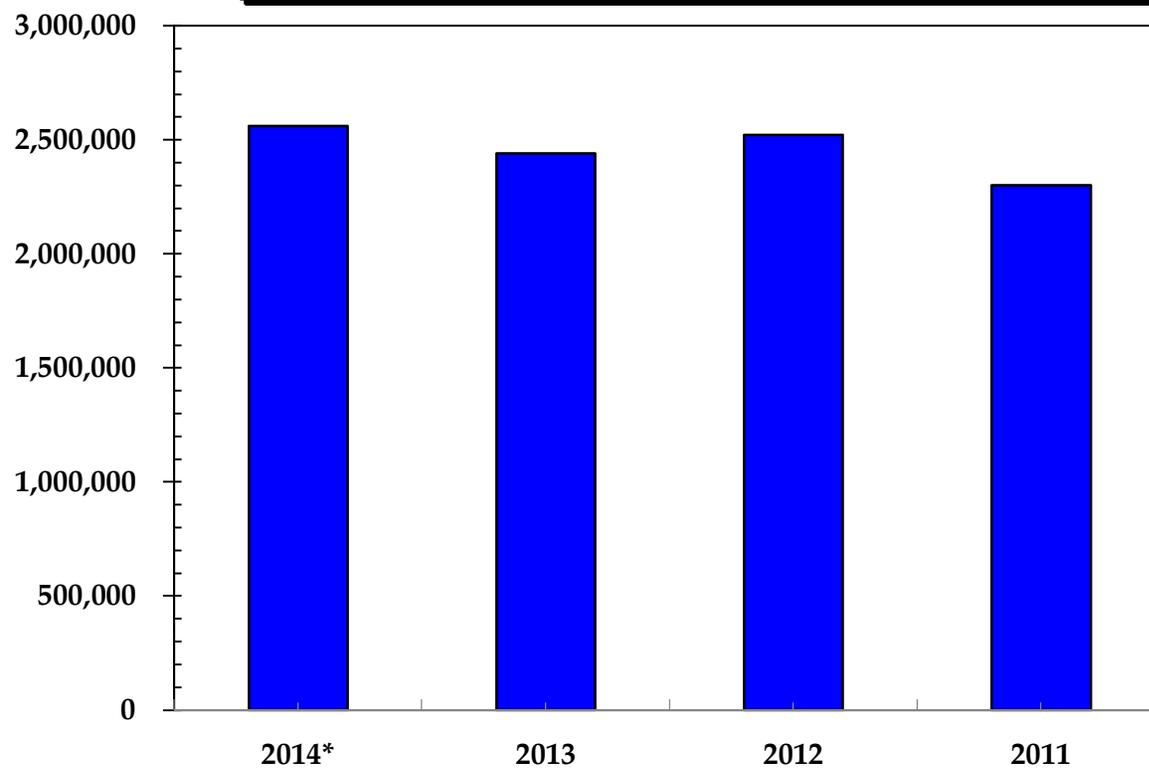
Totals By Year

See Independent Auditor's Report.



See Independent Auditor's Report.

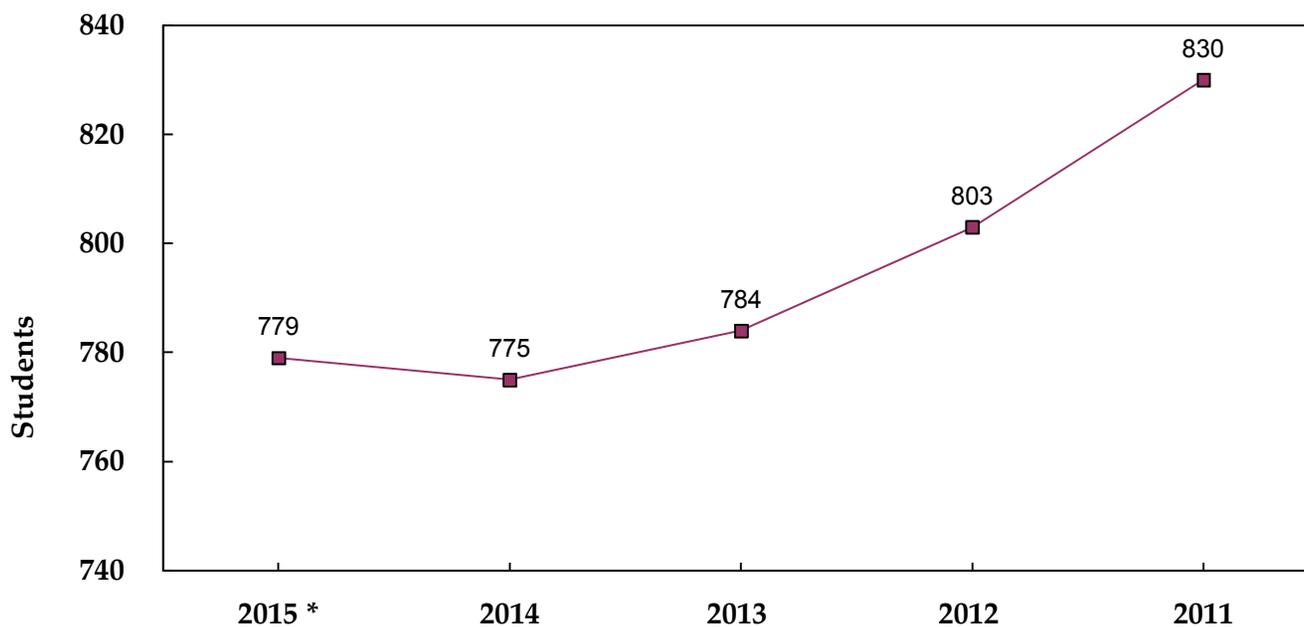
**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Spending Authority**



\* estimated

See Independent Auditor's Report.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Student Enrollment Data**

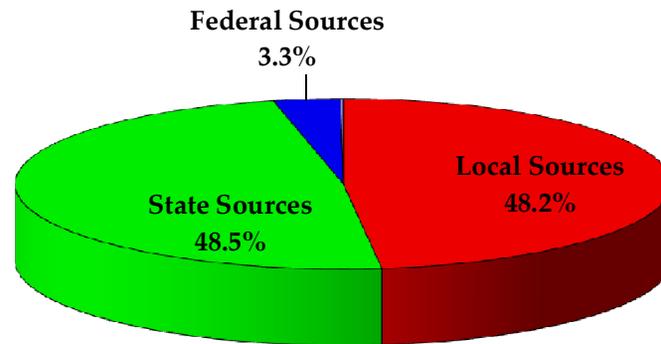


**Resource: Total School Enrollment, Not Certified Enrollment, Line 11 of Certified Enrollment Form**

**\*estimated enrollment, has not been audited**

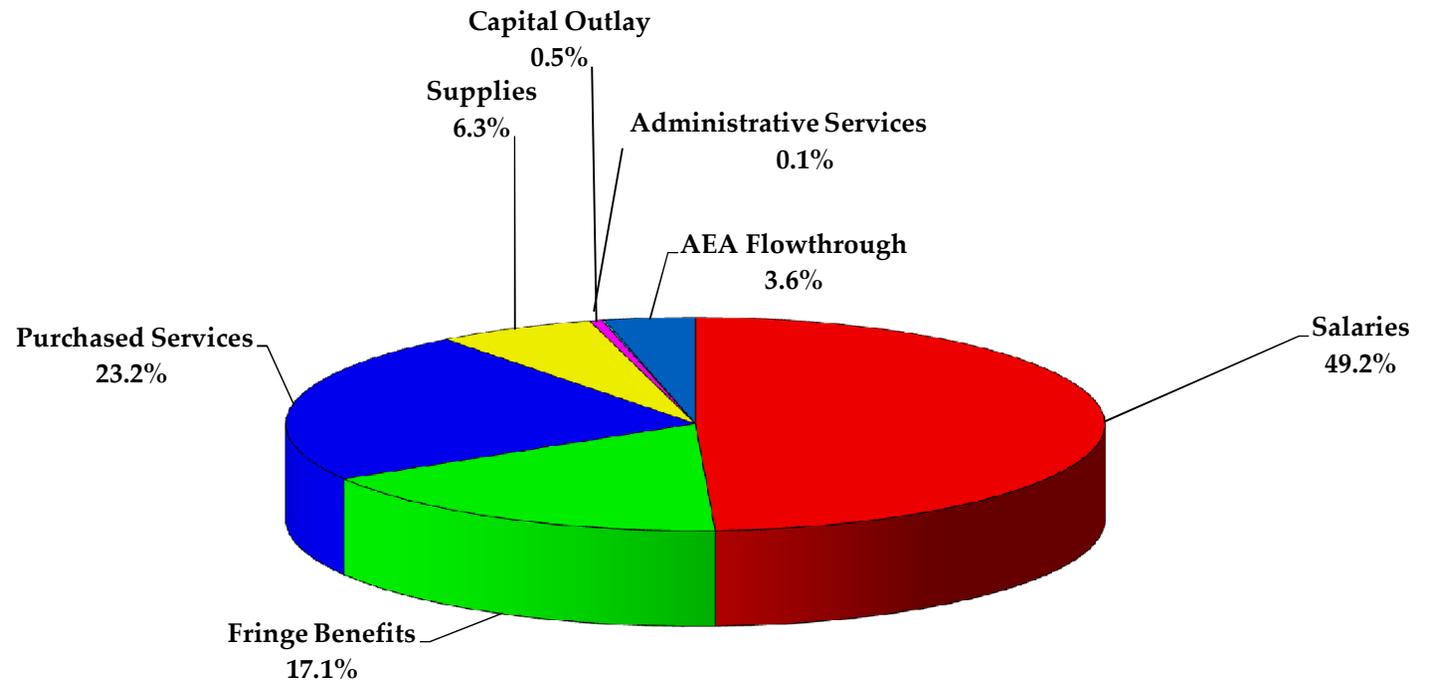
See Independent Auditor's Report.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
General Fund Revenue Analysis Year Ended June 30, 2014**



See Independent Auditor's Report.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
General Fund Expenditure Analysis Year Ended June 30, 2014**



See Independent Auditor's Report.

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  
North Fayette Community School District  
West Union, Iowa

We have audited, in accordance with the U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Fayette Community School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise North Fayette Community School District's basic financial statements and have issued our report thereon dated November 10, 2014.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### Overlapping Duties

The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

### Criteria

A properly designed segregation of duties allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

### Recommendation

While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Board be aware that this condition does exist.

### Response and Corrective Action Planned

Management is cognizant of this limitation and will implement additional controls where possible.

### Conclusion

Response acknowledged.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Fayette Community School District's financial statements are free from 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*.

### North Fayette Community School District's Response to Finding

North Fayette Community School District's response to the finding identified in our audit is described above. North Fayette Community School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### 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.

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
November 10, 2014

## MANAGEMENT LETTER

To the Board of Education  
North Fayette Community School District  
West Union, Iowa

In planning and performing our audit of the financial statements of North Fayette Community School District for the year ended June 30, 2014, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated November 10, 2014 contains our report on the District's internal control over financial reporting. This letter does not affect our report dated November 10, 2014, on the financial statements of the North Fayette Community School District. Comment numbers 13, 14, and 15 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

1. Certified Budget

Expenditures for the year ended June 30, 2014 exceeded the amended certified budget amount in the instruction function.

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.

2. Questionable Expenditures

We noted no expenditures that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

3. Travel Expense

No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.

4. Business Transactions

We noted no business transactions between the District and District officials and/or employees for the year ended June 30, 2014.

5. 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.

6. Board Minutes  
We noted no transactions requiring Board approval, which had not been approved by the Board. We also noted no minutes and bills that had not been published as required.

7. Certified Enrollment  
No variances in the basic enrollment data certified to the Iowa Department of Education were noted. We did note that the District did not timely file its certified enrollment by October 15, 2013 as required by Chapter 257.6 of the Code of Iowa.

Recommendation

The District should make every effort to timely file their certified enrollment by October 15<sup>th</sup>.

Response

The District certified its enrollment on October 15, 2013 to the Iowa Department of Education, but the Department did not process it until the following day.

Conclusion

Response accepted.

8. Supplementary Weighting  
We did note two variances with the supplementary weighting for operational function sharing certified to the Iowa Department of Education. The District did not include the shared positions of curriculum director and transportation director.

Recommendation

When certifying supplemental weighting for operational function, the District should include all shared positions for proper calculation of funding at the state level.

Response

Following discussions with the Iowa Department of Education, the District will be receiving an audit adjustment concerning this matter in fiscal year 2015.

Conclusion

Response accepted.

9. 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.

10. Certified Annual Report  
The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.

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

12. Statewide Sales, Services and Use Tax

No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance		\$	1,093,708
Statewide sales, services and use tax			725,580
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	292,207	
Debt service for school infrastructure:			
General obligation debt		159,030	451,237
			<hr/>
Ending balance		\$	<u>1,368,051</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
		<hr/>
Debt service levy	\$ 0.63	\$ 159,030
Physical plant and equipment levy	2.26	<u>566,550</u>
		<hr/> <u>\$ 725,580</u>

13. Capital Asset Records

We recommend for proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once each year and checked against the capital assets records. The District also needs to calculate depreciation expense on the appropriate capital assets. However, the necessary adjustments for the fiscal year have been calculated and reflected in the governmental activities.

Recommendation

We recommend management update its property records and record the result in the governmental activities.

Response

The District will take an inventory of all property and equipment at the conclusion of the school year.

Conclusion

Response accepted.

14. Disbursements

During our audit, we noted various items not in compliance with District procedures. From a total of seventy-six disbursements tested we noted eleven disbursements not in compliance with District procedures, including eleven that did not document approval for actual payment. The majority of these items were for travel reimbursement or local business charges and other reoccurring monthly payments that received previous and post Board approval. From a total of sixteen payroll disbursements we noted four didn't have complete documentation for deductions. After subsequent review it appeared all tested disbursements were appropriate expenditures of public funds.

Recommendation

We recommend all invoices are properly authorized with signature approval. We also recommend the purchase order be signed and attached to all applicable disbursements. We recommend for payroll disbursements that all deductions and payments have complete authorization documentation.

Response

The District does attach the check stub to all paid invoices. All paid invoices are audited and approved by the Board each month. We will implement additional procedures to address your recommendation. We will review all documentation and obtain the proper signatures for payroll deductions and payments.

Conclusion

Response accepted.

15. Outstanding Checks

The District's bank reconciliations included outstanding checks over three years old.

Recommendation

The District should review the checks to see if they have been cashed and if not to turn the checks over to the State Treasurer's office.

Response

We will review the outstanding checks and turn over to state agency, if appropriate.

Conclusion

Response accepted.

We have also provided you under separate cover a listing of general steps that you should review and consider implementing to strengthen controls. This list is not all inclusive. You should review all aspects of your operations and implement appropriate controls as deemed necessary. Some of these items may not be applicable or you may have already implemented them.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of North Fayette Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Hacher, Nelson & Co., P.C.*