

VILLISCA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2014

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Villisca Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2013 Election)</b>		
Jason Poston	President	2015
Daniel Sorensen	Vice President	2013
Marvin Smith	Board Member	2013
John Baker	Board Member	2015
Tom Williams	Board Member	2015
<b>(After September 2013 Election)</b>		
Jason Poston	President	2015
Tom Williams	Vice President	2015
Leland Shipley	Board Member	2017
John Baker	Board Member	2015
Todd Drake	Board Member	2017
<b>School Officials</b>		
William Stone	Superintendent	2014
Jessie Forsythe	Board Secretary/ Business Manager	2014
Ahlers & Cooney, P.C.	Attorney	2014

VILLISCA COMMUNITY SCHOOL DISTRICT

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

**INDEPENDENT AUDITOR'S REPORT**

**To the Board of Education of the Villisca Community School District:**

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

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

## Other Matters

### *Required Supplementary Information*

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

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Villisca Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2015 on our consideration of Villisca Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Villisca Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2015  
Newton, Iowa

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **2014 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,939,335 in fiscal year 2013 to \$4,370,576 in fiscal year 2014, while General Fund expenditures increased from \$3,788,314 in fiscal year 2013 to \$4,744,689 in year fiscal 2014. The result is a decrease in the District's General Fund balance from \$771,027 at June 30, 2013 to a balance of \$396,914 at June 30, 2014, a decrease of 48.52% from the prior year.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Villisca Community School District as a whole and present an overall view of the District's finances.

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

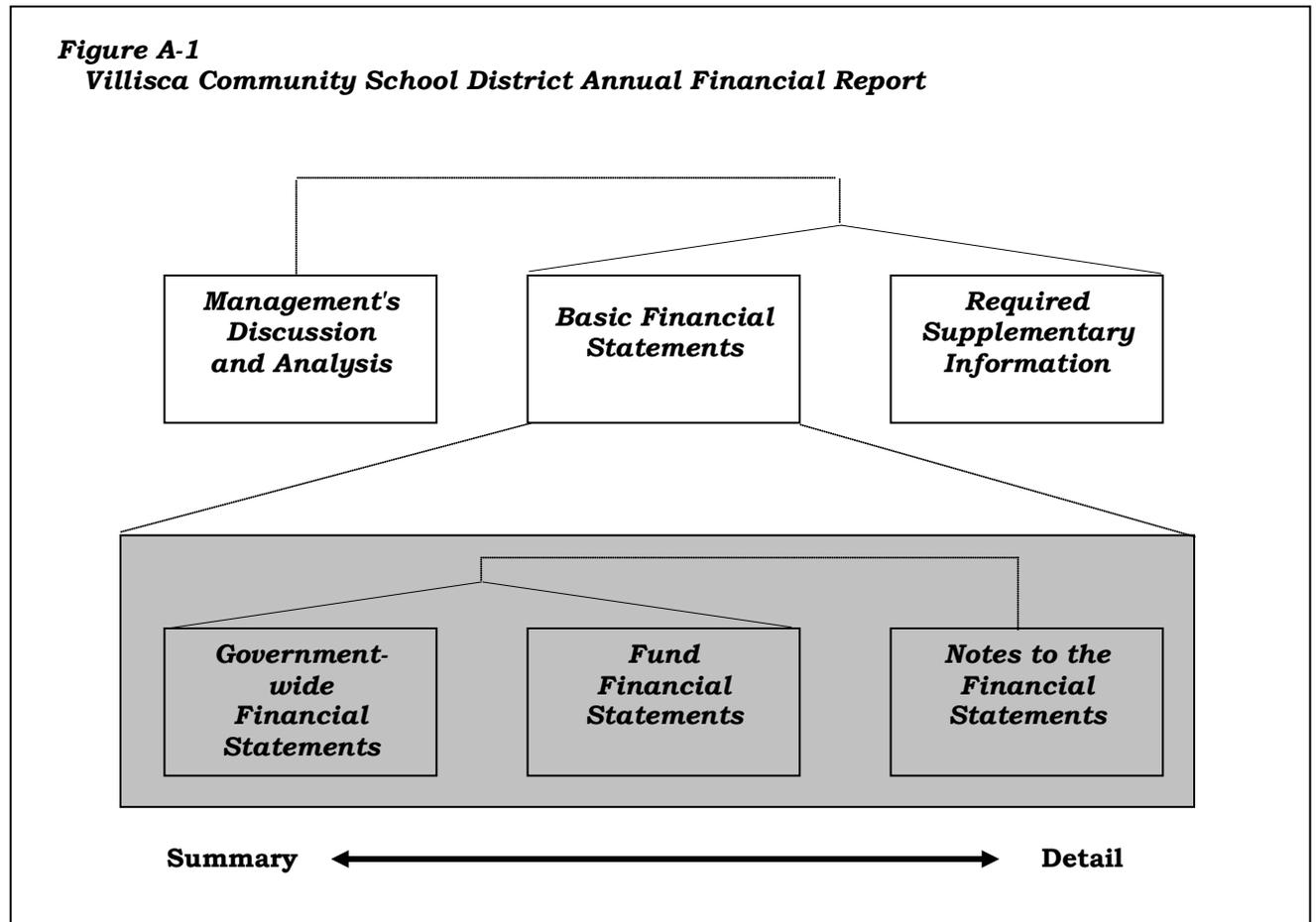


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District’s assets, deferred outflows of resources, liabilities and deferred inflow 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.

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Current and other assets	\$ 4,398,856	4,408,103	20,587	10,762	4,419,443	4,418,865	0.01%
Capital assets	4,946,186	3,531,052	19,335	23,973	4,965,521	3,555,025	39.68%
Total assets	9,345,042	7,939,155	39,922	34,735	9,384,964	7,973,890	17.70%
Long-term liabilities	2,570,287	1,817,306	-	-	2,570,287	1,817,306	41.43%
Other liabilities	1,060,893	445,308	5,966	3,876	1,066,859	449,184	137.51%
Total liabilities	3,631,180	2,262,614	5,966	3,876	3,637,146	2,266,490	60.47%
Deferred inflows of resources	2,044,003	1,951,233	-	-	2,044,003	1,951,233	4.75%
Net position:							
Net investment in capital assets	2,486,186	1,836,052	19,335	23,973	2,505,521	1,860,025	34.70%
Restricted	912,708	1,182,291	-	-	912,708	1,182,291	-22.80%
Unrestricted	270,965	706,965	14,621	6,886	285,586	713,851	-59.99%
Total net position	\$ 3,669,859	3,725,308	33,956	30,859	3,703,815	3,756,167	-1.39%

The District's combined net position decreased by 1.39%, or \$52,352, over the prior year. The largest portion of the District's net position is the investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net position decreased by \$269,583 or 22.80% from the prior year. The decrease in restricted net position is mainly attributable to the decrease in fund balance for the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Unrestricted net position - the part of net position that can be used to finance day -to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased by \$428,265 or 59.99%. The main reason for the decrease in unrestricted net position is because of the decrease in fund balance of the General Fund.

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

	Figure A-4						
	Changes in Net Position						
	Governmental Activities		Business type Activities		Total District		Total Change
	2014	2013	2014	2013	2014	2013	2013-14
Revenues:							
Program revenues:							
Charges for service	\$ 926,533	339,378	73,704	82,040	1,000,237	421,418	137.35%
Operating grants, contributions and restricted interest	418,072	493,425	127,525	125,649	545,597	619,074	-11.87%
Capital grants, contributions and restricted interest	-	7,262	-	-	-	7,262	-100.00%
General revenues:							
Property tax	1,952,103	1,905,261	-	-	1,952,103	1,905,261	2.46%
Statewide sales, services and use tax	294,561	304,608	-	-	294,561	304,608	-3.30%
Income surtax	66,975	62,471	-	-	66,975	62,471	7.21%
Unrestricted state grants	1,564,056	1,826,232	-	-	1,564,056	1,826,232	-14.36%
Unrestricted investment earnings	9,204	6,615	5	5	9,209	6,620	39.11%
Other	35,507	10,050	-	-	35,507	10,050	253.30%
Total revenues	5,267,011	4,955,302	201,234	207,694	5,468,245	5,162,996	5.91%
Program expenses:							
Instructional	3,553,969	2,858,809	-	-	3,553,969	2,858,809	24.32%
Support services	1,502,112	1,342,790	3,976	6,071	1,506,088	1,348,861	11.66%
Non-instructional programs	690	715	194,161	210,400	194,851	211,115	-7.70%
Other expenses	265,689	297,056	-	-	265,689	297,056	-10.56%
Total expenses	5,322,460	4,499,370	198,137	216,471	5,520,597	4,715,841	17.06%
Excess(Deficiency) of revenues over(under) expenditures	(55,449)	455,932	3,097	(8,777)	(52,352)	447,155	-111.71%
Transfers	-	(2,697)	-	2,697	-	-	0.00%
Change in net position	(55,449)	453,235	3,097	(6,080)	(52,352)	447,155	-111.71%
Net position beginning of year	3,725,308	3,272,073	30,859	36,939	3,756,167	3,309,012	13.51%
Net position end of year	\$ 3,669,859	3,725,308	33,956	30,859	3,703,815	3,756,167	-1.39%

In fiscal 2014, property tax and unrestricted state grants account for 66.76% of the revenue from governmental activities while charges for services and operating grants and contributions account for almost 100% of the revenue from business type activities. The District's total revenues were \$5,468,245 of which \$5,267,011 was for governmental activities and \$201,234 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.91% increase in revenues and a 17.06% increase in expenses. Property tax increased \$46,842 to fund expenses. The increase in expenses is mainly attributable to the start of a whole grade sharing agreement.

### Governmental Activities

Revenues for the governmental activities were \$5,267,011 and expenses were \$5,322,460, for the year ended June 30, 2014.

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

	Total Cost of Services			Net Cost of Services		
	2014	2013	Change 2013-14	2014	2013	Change 2013-14
Instruction	\$ 3,553,969	2,858,809	24.32%	2,455,608	2,175,375	12.88%
Support services	1,502,112	1,342,790	11.86%	1,395,972	1,323,911	5.44%
Non-instructional	690	715	-3.50%	690	715	-3.50%
Other expenses	265,689	297,056	-10.56%	125,585	159,304	-21.17%
Totals	\$ 5,322,460	4,499,370	18.29%	3,977,855	3,659,305	8.71%

For the year ended June 30, 2014:

- The cost financed by users of the District's programs was \$926,533.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$418,072.
- The net cost of governmental activities was financed with \$1,952,103 in property tax, \$294,561 in statewide sales, services and use tax, \$66,975 in income surtax, \$1,564,056 in unrestricted state grants, \$9,204 in interest income, and \$35,507 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2014 were \$201,234, representing a 3.11% decrease from the prior year, while expenses totaled \$198,137, a 8.47% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,256,938, below last year's ending fund balances of a \$1,957,108. Decreases in fund balances for the General Fund and the Capital Project accounts led to the decrease in total fund balances at the end of the year.

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## **Governmental Fund Highlights**

- The District's decreasing General Fund financial position is the product of many factors. Growth during the year in local source revenues led to the increase in revenues when compared to the previous year. Expenditures increased in the instruction and support services functional areas resulting in a decrease in fund balance of \$374,113. This resulted in a decrease in General Fund balance from \$771,027 at June 30, 2013 to \$396,914 at June 30, 2014.
- The Management Levy fund balance increased from a balance of \$295,812 at June 30, 2013 to \$341,955 at June 30, 2014. Revenues exceeded expenditures causing fund balance to increase by \$46,143 or 15.60%.
- The Capital Projects Fund balance decreased from a balance of \$696,201 at June 30, 2013 to \$252,490 at June 30, 2014. The decrease in balance was primarily the result of continued expenditures associated with the new wellness center in the District.
- The Debt Service fund balance increased from a balance of \$154,310 at June 30, 2013 to \$247,034 at June 30, 2014. The increase in balance was primarily due to the increase in the amount of local tax received.

## **Proprietary Fund Highlights**

School Nutrition Fund net position increased from \$30,859 at June 30, 2013 to \$33,956 at June 30, 2014, representing an increase of approximately 10.04%.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the Villisca Community School District amended its budget one time to reflect additional expenditures in the support services and other expenditures functional areas.

The District's revenues were \$695,938 more than budgeted revenues, a variance of 14.58%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, support services and other expenditures functional areas as well as in total.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2014, the District had invested \$4,965,521, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 39.68% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$194,613.

The original cost of the District's capital assets was \$7,897,796. Governmental funds account for \$7,724,395 with the remainder of \$173,401 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. Construction in progress totaled \$94,895 reported at June 30, 2013, compared to \$1,433,629 reported at June 30, 2014. The increase in construction in progress is due to construction expenses associated with the new wellness center which were incurred by the District during fiscal year 2014.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2014	2013	2014	2013	2014	2013	2013-14
Land	\$ 18,650	18,650	-	-	18,650	18,650	0.00%
Construction in progress	1,433,629	94,895	-	-	1,433,629	94,895	1410.75%
Buildings	3,132,791	3,228,249	-	-	3,132,791	3,228,249	-2.96%
Land improvements	8,363	9,122	-	-	8,363	9,122	-8.32%
Machinery and equipment	352,753	180,136	19,335	23,973	372,088	204,109	82.30%
Total	\$ 4,946,186	3,531,052	19,335	23,973	4,965,521	3,555,025	39.68%

### Long-Term Debt

At June 30, 2014, the District had long-term debt outstanding of \$2,570,287 in general obligation bonds, revenue bonds and other long-term debt outstanding. This represents an increase of 41.43% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

- The District had \$1,460,000 of outstanding general obligation bonds at June 30, 2014 payable from the Debt Service Fund.
- The District had \$1,000,000 of outstanding revenue bonds at June 30, 2014 payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.
- The District had \$19,193 of outstanding termination benefits at June 30, 2014 payable from the Special Revenue: Management Levy Fund.
- The District had a net OPEB liability of \$91,094 at June 30, 2014.

Figure A-7  
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2014	2013	2013-14
General obligation bonds	1,460,000	1,695,000	-13.86%
Revenue bonds	1,000,000	-	100.00%
Termination benefits	19,193	48,000	-60.01%
Net OPEB liability	91,094	74,306	22.59%
Total	\$ 2,570,287	1,817,306	41.43%

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## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- This is the District's first year entering a Wholegrade Sharing Agreement with the Corning Community School District.
- The District continued construction on a Wellness Center during the 2013-2014 year.
- Enrollment changes will continue to affect the District's budget.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jessie Forsythe, District Board Secretary/Business Manager, Villisca Community School District, 406 E 3<sup>rd</sup> St., Villisca, Iowa, 50864.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,638,282	10,131	1,648,413
Receivables:			
Property tax:			
Delinquent	27,891	-	27,891
Succeeding year	2,044,003	-	2,044,003
Income surtax	55,766	-	55,766
Accounts	12,067	-	12,067
Inventories	-	10,456	10,456
Due from other governments	620,847	-	620,847
Capital assets, net of accumulated depreciation	4,946,186	19,335	4,965,521
<b>Total assets</b>	<b>9,345,042</b>	<b>39,922</b>	<b>9,384,964</b>
<b>Liabilities</b>			
Accounts payable	709,696	2,436	712,132
Salaries and benefits payable	332,453	1,334	333,787
Unearned revenue	-	2,196	2,196
Accrued interest payable	18,744	-	18,744
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	240,000	-	240,000
Revenue bonds payable	95,000	-	95,000
Termination benefits payable	19,193	-	19,193
Portion due after one year:			
General obligation bonds payable	1,220,000	-	1,220,000
Revenue bonds payable	905,000	-	905,000
Net OPEB liability	91,094	-	91,094
<b>Total liabilities</b>	<b>3,631,180</b>	<b>5,966</b>	<b>3,637,146</b>
<b>Deferred Inflows of Resources</b>			
Unavailable property tax revenue	2,044,003	-	2,044,003
<b>Net position</b>			
Net investment in capital assets	2,486,186	19,335	2,505,521
Restricted for:			
Categorical funding	90,621	-	90,621
School infrastructure	112,297	-	112,297
Physical plant and equipment	140,193	-	140,193
Management levy purposes	322,762	-	322,762
Student activities	18,545	-	18,545
Debt service	228,290	-	228,290
Unrestricted	270,965	14,621	285,586
<b>Total net position</b>	<b>\$ 3,669,859</b>	<b>33,956</b>	<b>3,703,815</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Govern-mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,276,149	501,877	78,319	(1,695,953)	-	(1,695,953)
Special	749,068	214,828	16,074	(518,166)	-	(518,166)
Other	528,752	126,039	161,224	(241,489)	-	(241,489)
	<u>3,553,969</u>	<u>842,744</u>	<u>255,617</u>	<u>(2,455,608)</u>	<u>-</u>	<u>(2,455,608)</u>
Support services:						
Student	85,711	-	170	(85,541)	-	(85,541)
Instructional staff	102,479	12,123	22,181	(68,175)	-	(68,175)
Administration	555,006	-	-	(555,006)	-	(555,006)
Operation and maintenance of plant	442,782	-	-	(442,782)	-	(442,782)
Transportation	316,134	71,666	-	(244,468)	-	(244,468)
	<u>1,502,112</u>	<u>83,789</u>	<u>22,351</u>	<u>(1,395,972)</u>	<u>-</u>	<u>(1,395,972)</u>
Non-instructional programs:						
Food service operations	690	-	-	(690)	-	(690)
Long-term debt interest						
	29,368	-	-	(29,368)	-	(29,368)
Other expenses:						
AEA flowthrough	140,104	-	140,104	-	-	-
Depreciation(unallocated)*	96,217	-	-	(96,217)	-	(96,217)
	<u>236,321</u>	<u>-</u>	<u>140,104</u>	<u>(96,217)</u>	<u>-</u>	<u>(96,217)</u>
Total governmental activities	<u>5,322,460</u>	<u>926,533</u>	<u>418,072</u>	<u>(3,977,855)</u>	<u>-</u>	<u>(3,977,855)</u>
Business type activities:						
Support services:						
Operation and maintenance of plant	3,976	-	-	-	(3,976)	(3,976)
Non-instructional programs:						
Food service operations	194,161	73,704	127,525	-	7,068	7,068
Total business type activities	<u>198,137</u>	<u>73,704</u>	<u>127,525</u>	<u>-</u>	<u>3,092</u>	<u>3,092</u>
Total	<u>\$ 5,520,597</u>	<u>1,000,237</u>	<u>545,597</u>	<u>(3,977,855)</u>	<u>3,092</u>	<u>(3,974,763)</u>
<b>General Revenues:</b>						
Local tax levied for:						
General purposes				\$ 1,640,568	-	1,640,568
Debt service				247,750	-	247,750
Capital outlay				63,785	-	63,785
Income surtax				66,975	-	66,975
Statewide sales, services and use tax				294,561	-	294,561
Unrestricted state grants				1,564,056	-	1,564,056
Unrestricted investment earnings				9,204	5	9,209
Other				35,507	-	35,507
Total general revenues				<u>3,922,406</u>	<u>5</u>	<u>3,922,411</u>
Change in net position				(55,449)	3,097	(52,352)
Net position beginning of year				3,725,308	30,859	3,756,167
Net position end of year				<u>\$ 3,669,859</u>	<u>33,956</u>	<u>3,703,815</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Management Levy	Capital Projects	Debt Service	Nonmajor: Student Activity	Total
<b>Assets</b>						
Cash and pooled investments	\$ 769,730	339,954	267,631	243,494	17,473	1,638,282
Receivables:						
Property tax:						
Delinquent	21,439	2,001	911	3,540	-	27,891
Succeeding year	1,309,846	190,001	107,876	436,280	-	2,044,003
Income surtax	-	-	55,766	-	-	55,766
Accounts	3,242	-	-	-	8,825	12,067
Due from other governments	508,366	-	112,481	-	-	620,847
<b>Total assets</b>	<b>\$ 2,612,623</b>	<b>531,956</b>	<b>544,665</b>	<b>683,314</b>	<b>26,298</b>	<b>4,398,856</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 573,410	-	128,533	-	7,753	709,696
Salaries and benefits payable	332,453	-	-	-	-	332,453
Total liabilities	905,863	-	128,533	-	7,753	1,042,149
Deferred inflows of resources:						
Unavailable revenues:						
Succeeding year property tax	1,309,846	190,001	107,876	436,280	-	2,044,003
Income surtax	-	-	55,766	-	-	55,766
Total deferred inflows of resources	1,309,846	190,001	163,642	436,280	-	2,099,769
Fund balances:						
Restricted for:						
Categorical funding	90,621	-	-	-	-	90,621
School infrastructure	-	-	112,297	-	-	112,297
Physical plant and equipment	-	-	140,193	-	-	140,193
Management levy purposes	-	341,955	-	-	-	341,955
Student activities	-	-	-	-	18,545	18,545
Debt service	-	-	-	247,034	-	247,034
Unassigned	306,293	-	-	-	-	306,293
Total fund balances	396,914	341,955	252,490	247,034	18,545	1,256,938
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 2,612,623</b>	<b>531,956</b>	<b>544,665</b>	<b>683,314</b>	<b>26,298</b>	<b>4,398,856</b>

SEE NOTES TO FINANCIAL STATEMENTS.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2014

<b>Total fund balances of governmental funds(page 20)</b>	\$	1,256,938
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		4,946,186
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(18,744)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal year and is recognized as deferred inflows of resources in the governmental funds.		55,766
Long-term liabilities, including general obligation bonds payable, revenue bonds payable, termination benefits payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,570,287)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>3,669,859</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Management Levy	Capital Projects	Debt Service	Nonmajor: Student Activity	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 1,500,506	140,062	131,964	247,750	-	2,020,282
Tuition	644,211	-	-	-	-	644,211
Other	235,138	6,778	3,396	988	80,733	327,033
State sources	1,834,703	63	294,590	112	-	2,129,468
Federal sources	147,221	-	-	-	-	147,221
<b>TOTAL REVENUES</b>	<b>4,361,779</b>	<b>146,903</b>	<b>429,950</b>	<b>248,850</b>	<b>80,733</b>	<b>5,268,215</b>
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular	2,126,023	42,469	121,305	-	-	2,289,797
Special	747,289	-	-	-	-	747,289
Other	419,881	-	-	-	101,946	521,827
	<b>3,293,193</b>	<b>42,469</b>	<b>121,305</b>	<b>-</b>	<b>101,946</b>	<b>3,558,913</b>
Support services:						
Student	98,141	690	-	-	-	98,831
Instructional staff	80,967	690	20,822	-	-	102,479
Administration	496,846	7,525	54,076	-	-	558,447
Operation and maintenance of plant	375,548	33,329	26,965	-	-	435,842
Transportation	259,890	15,367	107,890	-	-	383,147
	<b>1,311,392</b>	<b>57,601</b>	<b>209,753</b>	<b>-</b>	<b>-</b>	<b>1,578,746</b>
Non-instructional programs:						
Food service operations	-	690	-	-	-	690
Capital outlay	-	-	1,450,589	-	-	1,450,589
Long-term debt:						
Principal	-	-	-	235,000	-	235,000
Interest and fiscal charges	-	-	-	13,140	-	13,140
	<b>-</b>	<b>-</b>	<b>-</b>	<b>248,140</b>	<b>-</b>	<b>248,140</b>
Other expenditures:						
	140,104	-	-	-	-	140,104
<b>TOTAL EXPENDITURES</b>	<b>4,744,689</b>	<b>100,760</b>	<b>1,781,647</b>	<b>248,140</b>	<b>101,946</b>	<b>6,977,182</b>
Excess(Deficiency) of revenues over(under) expenditures	(382,910)	46,143	(1,351,697)	710	(21,213)	(1,708,967)
<b>OTHER FINANCING SOURCES(USES):</b>						
Transfer in	-	-	-	92,014	-	92,014
Transfer out	-	-	(92,014)	-	-	(92,014)
Revenue bond issuance	-	-	1,000,000	-	-	1,000,000
Insurance proceeds	8,797	-	-	-	-	8,797
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<b>8,797</b>	<b>-</b>	<b>907,986</b>	<b>92,014</b>	<b>-</b>	<b>1,008,797</b>
Change in fund balances	(374,113)	46,143	(443,711)	92,724	(21,213)	(700,170)
Fund balances beginning of year	771,027	295,812	696,201	154,310	39,758	1,957,108
Fund balances end of year	\$ 396,914	341,955	252,490	247,034	18,545	1,256,938

SEE NOTES TO FINANCIAL STATEMENTS.

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

**Change in fund balances - total governmental funds(page 22)** \$ (700,170)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlay and depreciation expense in the year are as follows:

Capital outlay	\$ 1,604,321	
Depreciation expense	<u>(189,187)</u>	1,415,134

Income surtax account receivable is not available to finance expenditures of the current year and, therefore, is shown as deferred inflows of resources in the governmental funds. (1,204)

Proceeds of long-term debt liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position.

Issued	(1,000,000)	
Repaid	<u>235,000</u>	(765,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (16,228)

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

Termination benefits	28,807	
Other postemployment benefits	<u>(16,788)</u>	<u>12,019</u>

**Change in net position of governmental activities(page 19)** \$ (55,449)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Enterprise:</u>
	School
	<u>Nutrition</u>
<b>ASSETS</b>	
Current assets:	
Cash and pooled investments	\$ 10,131
Inventories	10,456
Total current assets	<u>20,587</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>19,335</u>
<b>TOTAL ASSETS</b>	<u><u>39,922</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	2,436
Salaries and benefits payable	1,334
Unearned revenues	<u>2,196</u>
<b>TOTAL LIABILITIES</b>	<u>5,966</u>
<b>NET POSITION</b>	
Net investment in capital assets	19,335
Unrestricted	<u>14,621</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 33,956</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Enterprise:</u> <u>School</u> <u>Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	<u>\$ 73,704</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	2,984
Supplies	992
	<u>3,976</u>
Non-instructional programs:	
Food service operations:	
Salaries	70,109
Benefits	11,554
Services	161
Supplies	106,911
Depreciation	5,426
	<u>194,161</u>
TOTAL OPERATING EXPENSES	<u>198,137</u>
OPERATING LOSS	<u>(124,433)</u>
NON-OPERATING REVENUES:	
Interest	5
State sources	1,732
Federal sources	125,793
TOTAL NON-OPERATING REVENUES	<u>127,530</u>
Change in net position	3,097
Net position beginning of year	<u>30,859</u>
Net position end of year	<u>\$ 33,956</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Enterprise: School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 74,690
Cash payments to employees for services	(81,736)
Cash payments to suppliers for goods or services	(100,014)
Net cash used in operating activities	(107,060)
Cash flows from non-capital financing activities:	
State grants received	1,732
Federal grants received	111,395
Net cash provided by non-capital financing activities	113,127
Cash flows from investing activities:	
Net cash provided by investing activities	5
Cash flows from capital financing activities:	
Purchase of assets	(788)
Net increase in cash and cash equivalents	5,284
Cash and cash equivalents beginning of year	4,847
Cash and cash equivalents end of year	\$ 10,131
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (124,433)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,398
Depreciation	5,426
Increase in inventories	(4,541)
Increase in accounts payable	1,177
Decrease in salaries and benefits payable	(73)
Increase in unearned revenue	986
Net cash used in operating activities	\$ (107,060)
Non-cash investing, capital and related financing activities:	

During the year ended June 30, 2014, the District received Federal commodities valued at \$14,398.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 156,562
<b>LIABILITIES</b>	<u>-</u>
<b>NET POSITION</b>	
Restricted for scholarships	<u>\$ 156,562</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 2,350
Interest income	381
Total additions	<u>2,731</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>9,300</u>
Change in net position	(6,569)
Net position beginning of year	<u>163,131</u>
Net position end of year	<u>\$ 156,562</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

**(1) Summary of Significant Accounting Policies**

The Villisca Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Villisca, Iowa, and the predominate agricultural territory in Adams, Montgomery, Page and Taylor Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Montgomery, Page and Taylor County Assessors' Conference Board.

**B. Basis of Presentation**

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

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

The Management Levy Fund is used to account for property insurance and the payment of termination benefits to eligible employees.

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

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

The District's nonmajor proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

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

### **C. Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

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

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

### **C. Assets, Liabilities, Deferred Inflows of Resources and Fund Balances**

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	150,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	2 or more
Machinery and equipment	5-12 years

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

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

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

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Position in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

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

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

Unassigned - All amounts not included in other spendable classifications.

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, expenditures exceeded the amounts budgeted in the instruction, support services and other expenditures functional areas and the budget in total.

**(2) Cash and Pooled Investments**

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

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

At June 30, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government obligations Portfolio which are valued at an amortized cost of \$11,855 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

**(3) Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Physical Plant and Equipment Levy	<u>\$ 92,014</u>

The transfer from Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for part of the principal payment on the District's general obligation bond indebtedness.

(4) **Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 18,650	-	-	18,650
Construction in progress	94,895	1,338,734	-	1,433,629
Total capital assets not being depreciated	113,545	1,338,734	-	1,452,279
Capital assets being depreciated:				
Buildings	4,967,740	-	-	4,967,740
Land improvements	118,119	-	-	118,119
Machinery and equipment	920,670	265,587	-	1,186,257
Total capital assets being depreciated	6,006,529	265,587	-	6,272,116
Less accumulated depreciation for:				
Buildings	1,739,491	95,458	-	1,834,949
Land improvements	108,997	759	-	109,756
Machinery and equipment	740,534	92,970	-	833,504
Total accumulated depreciation	2,589,022	189,187	-	2,778,209
Total capital assets being depreciated, net	3,417,507	76,400	-	3,493,907
Governmental activities capital assets, net	\$ 3,531,052	1,415,134	-	4,946,186
<b>Business type activities:</b>				
Machinery and equipment	\$ 173,113	788	500	173,401
Less accumulated depreciation	149,140	5,426	500	154,066
Business type activities capital assets, net	\$ 23,973	(4,638)	-	19,335
Governmental activities:				
Instruction:				
Regular				\$ 17,630
Other				5,483
Support services:				
Administration				279
Operation and maintenance of plant				25,835
Transportation				43,743
Unallocated depreciation				96,217
Total governmental activities depreciation expense				\$ 189,187
Business type activities:				
Food service operations				\$ 5,426

(5) **Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,695,000	-	235,000	1,460,000	240,000
Revenue bonds	-	1,000,000	-	1,000,000	95,000
Termination benefits	48,000	-	28,807	19,193	19,193
Net OPEB liability	74,306	16,788	-	91,094	-
Total	<u>\$ 1,817,306</u>	<u>1,016,788</u>	<u>263,807</u>	<u>2,570,287</u>	<u>354,193</u>

General Obligation Bonds

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

Year Ending June 30,	Interest Rate	Bond issue dated April 15, 2013		
		Principal	Interest	Total
2015	0.40	% \$ 240,000	11,280	251,280
2016	0.50	240,000	10,320	250,320
2017	0.65	235,000	9,120	244,120
2018	0.85	245,000	7,593	252,593
2019	1.00	245,000	5,510	250,510
2020	1.20	255,000	3,060	258,060
Total		<u>\$ 1,460,000</u>	<u>46,883</u>	<u>1,506,883</u>

Revenue Bonds

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

Year Ending June 30,	Interest Rate	Bond issue dated August 26, 2013		
		Principal	Interest	Total
2015	0.66	% \$ 95,000	27,201	122,201
2016	0.98	95,000	20,209	115,209
2017	1.29	95,000	19,131	114,131
2018	1.57	95,000	17,772	112,772
2019	1.89	100,000	16,082	116,082
2020-2021	2.24-3.48	520,000	41,839	561,839
Total		<u>\$ 1,000,000</u>	<u>142,234</u>	<u>1,142,234</u>

The District has pledge future statewide sales, services and use tax revenues to repay the \$1,000,000 of bonds issued in August 2013. The bonds were issued for the purpose of financing a portion of the costs of a new wellness facility. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2021. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require 41.49% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$1,142,234. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$294,561.

### Termination Benefits

The District did not offer an early retirement incentive to employees in fiscal year 2014. However during the year ended June 30, 2013, the District offered a voluntary early retirement plan to its licensed employees. The early retirement plan was offered by the District at the Board's discretion. Employees should have no expectation that the plan will be offered.

Eligible employees must have been at least age fifty-five and must have completed at least twenty years of consecutive service to the District including the last year of employment. Employees must complete an application which was required to be approved by the Board of Education.

Licensed employees who meet the eligibility requirements were eligible for the early retirement amount of \$15,142. A licensed employee whose contractual full-time equivalency (FTE) is less than 1.0 will be eligible for a prorated termination benefit amount by multiplying the employee's percentage FTE by the applicable amount above. A licensed employee with less than twenty consecutive years of service will similarly be eligible for a prorated fraction of the total benefit based on the number of most recent consecutive years of service divided by 20. Employees may continue participation in the District's group insurance plan until Medicare age.

At June 30, 2014, the District had obligations to two participants with a total liability of \$19,193. Actual early retirement expenditures for the year ended June 30, 2014 totaled \$28,807.

### **(6) Pension and Retirement Benefits**

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

Plan members are required to contribute 5.95% of their annual covered salary and the District is required to contribute 8.93% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$196,765, \$178,153, and \$174,135, respectively, equal to the required contributions for each year.

### **(7) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer health benefit plan which provides medical benefits for employees, retirees and their spouses. There are 36 active and 1 retired member in the plan. Retired participants must be age 55 or older at retirement.

The medical benefits are provided through a full-insured plan with medical coverage administered by Mercer with dental coverage administered by Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit rate of subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 22,663
Interest on net OPEB obligation	1,857
Adjustment to annual required contribution	<u>(5,541)</u>
Annual OPEB cost	18,979
Contributions made	<u>(2,191)</u>
Increase in net OPEB obligation	16,788
Net OPEB obligation beginning of year	74,306
Net OPEB obligation end of year	<u><u>\$ 91,094</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 23,602	19.1%	\$ 54,271
2013	24,376	17.8%	74,306
2014	18,979	11.5%	91,094

**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 \$176,579, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$176,579. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.589 million and the ratio of the UAAL to covered payroll was 11.1%.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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 unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific based. Annual retirement and termination probabilities were based upon national termination studies performed by the Society of Actuaries. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(8) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following category: dental. The District’s contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2014 were \$15,019. Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

Villisca 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.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$140,104 for the year ended June 30, 2014 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis.

**(10) Categorical Funding**

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

Program	Amount
Gifted and talented	\$ 11,940
Returning dropout and dropout prevention	46,379
Teacher salary supplement	17,991
Student achievement and teacher quality program - market factor	3,078
Math and science education improvement	2,024
Educator quality program - market factor incentives	2,970
Teacher leadership grants	6,239
Total	<u>\$ 90,621</u>

**(11) Construction Commitment**

The District has entered into construction contracts totaling \$1,570,231 for the construction of a wellness center. As of June 30, 2014, costs of \$1,433,629 had been incurred against the contracts. The balance of \$136,602 will be paid as work progresses. The total cost of the project will be added to the District’s capital asset listing upon completion.

**(12) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2014, the District exceeded its amended budget in the instruction, support services and other expenditures functional areas as well as the budget in total.

**(13) Detailed Reconciliation of Governmental Fund Balances to Net Position**

The following is the detailed reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position:

	Net Investment in Capital Assets	Debt Service	Management Levy	Unassigned/ Unrestricted
Fund Balance (Exhibit C)	\$ -	247,034	341,955	306,293
Capital assets	4,946,186	-	-	-
General obligation bond capitalized indebtedness	(1,460,000)	-	-	-
Revenue bond capitalized indebtedness	(1,000,000)	-	-	-
Income surtax	-	-	-	55,766
Accrued interest payable	-	(18,744)	-	-
Termination benefits	-	-	(19,193)	-
Net OPEB liability	-	-	-	(91,094)
Net position (Exhibit A)	<u>\$ 2,486,186</u>	<u>228,290</u>	<u>322,762</u>	<u>270,965</u>

**(14) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 69, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government's proportionate share of the employee pension plan.

VILLISCA COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Fund Actual		Original	Final	
Revenues:						
Local sources	\$ 2,991,526	73,709	3,065,235	2,647,556	2,647,556	417,679
State sources	2,129,468	1,732	2,131,200	1,852,855	1,852,855	278,345
Federal sources	147,221	125,793	273,014	273,100	273,100	(86)
Total revenues	5,268,215	201,234	5,469,449	4,773,511	4,773,511	695,938
Expenditures/Expenses:						
Instruction	3,558,913	-	3,558,913	3,494,580	3,494,580	(64,333)
Support services	1,578,746	3,976	1,582,722	1,426,750	1,557,000	(25,722)
Non-instructional programs	690	194,161	194,851	368,502	368,502	173,651
Other expenditures	1,838,833	-	1,838,833	1,067,526	1,500,300	(338,533)
Total expenditures/expenses	6,977,182	198,137	7,175,319	6,357,358	6,920,382	(254,937)
Excess(Deficiency) of revenues over(under) expenditures/expenses	(1,708,967)	3,097	(1,705,870)	(1,583,847)	(2,146,871)	441,001
Other financing sources, net	1,008,797	-	1,008,797	10,000	10,000	1,028,797
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(700,170)	3,097	(697,073)	(1,573,847)	(2,136,871)	1,469,798
Balances beginning of year	1,957,108	30,859	1,987,967	1,586,951	1,586,951	401,016
Balances end of year	\$ 1,256,938	33,956	1,290,894	13,104	(549,920)	1,870,814

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private-Purpose Trust and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 or fund type. 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 \$563,024.

During the year ended June 30, 2014, expenditures in the instruction, support services and other expenditures functions exceeded the amounts budgeted and the District also exceeded the amended budgeted expenditures in total.

VILLISCA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN (IN THOUSANDS)  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$191	\$191	0.0%	\$1,570	12.2%
2011	July 1, 2009	-	\$191	\$191	0.0%	\$1,630	11.7%
2012	July 1, 2009	-	\$180	\$180	0.0%	\$1,761	10.2%
2013	July 1, 2012	-	\$192	\$192	0.0%	\$1,605	12.0%
2014	July 1, 2012	-	\$177	\$177	0.0%	\$1,589	11.1%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

VILLISCA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2014

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 133,028	134,603	267,631
Receivables:			
Property tax:			
Delinquent	-	911	911
Succeeding year	-	107,876	107,876
Income surtax	-	55,766	55,766
Due from other governments	107,802	4,679	112,481
<b>Total assets</b>	<b>\$ 240,830</b>	<b>303,835</b>	<b>544,665</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 128,533	-	128,533
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	107,876	107,876
Income surtax		55,766	55,766
Total deferred inflows of resources	-	163,642	163,642
Fund balances:			
Restricted for:			
School infrastructure	112,297	-	112,297
Physical plant and equipment	-	140,193	140,193
Total fund balances	112,297	140,193	252,490
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 240,830</b>	<b>303,835</b>	<b>544,665</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ -	131,964	131,964
Other	2,839	557	3,396
State sources	294,561	29	294,590
<b>TOTAL REVENUES</b>	<b>297,400</b>	<b>132,550</b>	<b>429,950</b>
EXPENDITURES:			
Current:			
Instruction:			
Regular	121,305	-	121,305
Support services:			
Instructional staff	12,388	8,434	20,822
Administration	-	54,076	54,076
Operation and maintenance of plant	26,965	-	26,965
Transportation	107,890	-	107,890
Capital outlay	1,437,737	12,852	1,450,589
<b>TOTAL EXPENDITURES</b>	<b>1,706,285</b>	<b>75,362</b>	<b>1,781,647</b>
Excess(Deficiency) of revenues over(under) expenditures	(1,408,885)	57,188	(1,351,697)
OTHER FINANCING SOURCES(USES):			
Transfer out	-	(92,014)	(92,014)
Revenue bond issuance	1,000,000	-	1,000,000
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<b>1,000,000</b>	<b>(92,014)</b>	<b>907,986</b>
Change in fund balances	(408,885)	(34,826)	(443,711)
Fund balances beginning of year	521,182	175,019	696,201
Fund balances end of year	\$ 112,297	140,193	252,490

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama Club	\$ 174	-	-	174
Music Boosters	501	-	178	323
Track	-	1,031	1,031	-
Football	1,582	1,233	2,284	531
Wrestling	-	9,777	9,777	-
Volleyball	1,595	1,657	3,058	194
SW Valley Activities	-	8,199	8,199	-
Athletics	2,045	100	2,145	-
Basketball	7,628	2,784	9,802	610
Activity Tickets	850	2,283	3,133	-
Softball/Baseball	65	5,246	5,075	236
Y-teens	5,457	12,480	11,451	6,486
FFA	2,003	-	2,003	-
Secondary Student Club	740	689	1,369	60
Student Vending Machine	-	8,928	8,928	-
Science Club	227	-	-	227
Cheerleaders	651	207	829	29
Student Council	1,068	1,886	1,677	1,277
JH Boosters	13	-	-	13
Destination Image	-	15,561	12,200	3,361
Annual Staff	3,641	1,054	2,700	1,995
Dance Team	1,743	-	1,743	-
Elementary Club K-6	6,238	6,520	10,426	2,332
National Honor Society	159	-	159	-
National Art Club	-	764	67	697
Class of 2013	292	46	338	-
Class of 2014	2,363	192	2,555	-
Class of 2015	63	-	63	-
Class of 2016	470	-	470	-
Class of 2017	-	19	19	-
Class of 2018	-	28	28	-
Interest	190	49	239	-
Total	<u>\$ 39,758</u>	<u>80,733</u>	<u>101,946</u>	<u>18,545</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2014

	Private Purpose Trust - Scholarship Fund				
	Schroeder Scholarship	Nelson Foundation	Telephone Scholarship	Wright Scholarship	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 8,325	1,964	70,223	76,050	156,562
<b>LIABILITIES</b>	-	-	-	-	-
<b>NET POSITION</b>					
Restricted for scholarships	\$ 8,325	1,964	70,223	76,050	156,562

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

VILLISCA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2014

	Private Purpose Trust - Scholarship Fund					Total
	Schroeder Scholarship	Activity Scholarship	Nelson Foundation	Telephone Scholarship	Wright Scholarship	
Additions:						
Local sources:						
Gifts and contributions	\$ -	2,350	-	-	-	2,350
Interest income	22	-	4	164	191	381
Total additions	22	2,350	4	164	191	2,731
Deductions:						
Instruction:						
Regular:						
Scholarships awarded	500	2,600	200	4,000	2,000	9,300
Change in net position	(478)	(250)	(196)	(3,836)	(1,809)	(6,569)
Net position beginning of year	8,803	250	2,160	74,059	77,859	163,131
Net position end of year	\$ 8,325	-	1,964	70,223	76,050	156,562

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:										
Local sources:										
Local tax	\$ 2,020,282	2,265,633	2,149,659	1,994,813	1,882,603	1,782,466	1,672,573	1,713,306	1,618,303	1,610,022
Tuition	644,211	84,264	56,511	90,042	42,805	82,126	133,313	78,454	58,162	45,031
Other	327,033	393,615	254,809	271,311	312,791	319,712	341,045	379,718	339,455	212,189
Intermediate sources	-	1,000	10,000	11,346	-	-	-	-	-	-
State sources	2,129,468	2,049,028	2,006,854	2,027,397	1,775,502	1,988,734	1,987,897	2,030,310	1,936,781	1,734,318
Federal sources	147,221	155,055	148,814	339,188	405,929	207,471	143,688	168,305	200,758	232,005
<b>Total</b>	<b>\$ 5,268,215</b>	<b>4,948,595</b>	<b>4,626,647</b>	<b>4,734,097</b>	<b>4,419,630</b>	<b>4,380,509</b>	<b>4,278,516</b>	<b>4,370,093</b>	<b>4,153,459</b>	<b>3,833,565</b>
Expenditures:										
Instruction:										
Regular	\$ 2,289,797	1,661,933	1,627,127	1,613,438	1,599,377	1,397,153	1,428,828	1,428,324	1,594,716	1,380,388
Special	747,289	453,710	479,201	451,865	444,757	540,996	541,847	533,797	438,880	459,736
Other	521,827	675,751	643,822	730,883	583,371	621,099	589,054	569,932	426,302	437,493
Support services:										
Student	98,831	99,283	125,571	54,609	91,846	53,177	97,079	89,149	107,231	76,683
Instructional staff	102,479	77,917	108,568	151,412	239,745	117,093	103,131	75,244	51,932	43,227
Administration	558,447	534,086	467,479	450,862	455,996	480,945	452,996	445,301	509,316	444,100
Operation and maintenance of plant	435,842	417,800	617,300	378,682	370,980	334,191	343,303	333,064	317,474	261,083
Transportation	383,147	143,370	179,815	154,482	268,737	152,017	218,335	230,966	222,208	197,724
Non-instructional programs:										
Food service operations	690	715	764	737	604	506	440	277	277	254
Community service and education operations	-	-	-	-	-	6,150	3,075	-	-	31,943
Capital outlay	1,450,589	196,201	-	64,977	113,796	92,996	101,231	106,132	93,679	104,824
Long term debt:										
Principal	235,000	1,855,000	195,000	185,000	2,340,000	155,000	140,000	135,000	130,000	120,000
Interest	13,140	72,585	80,385	87,735	217,435	227,535	235,537	243,635	200,120	171,350
Other expenditures:										
AEA flow-through	140,104	137,752	136,948	156,696	156,434	142,086	137,356	135,298	127,217	120,890
<b>Total</b>	<b>\$ 6,977,182</b>	<b>6,326,103</b>	<b>4,661,980</b>	<b>4,481,378</b>	<b>6,883,078</b>	<b>4,320,944</b>	<b>4,392,212</b>	<b>4,326,119</b>	<b>4,219,352</b>	<b>3,849,695</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

**To the Board of Education of the Villisca Community School District:**

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Villisca Community School District as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 27, 2015.

**Internal Control Over Financial Reporting**

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted no deficiencies that we consider to be a significant deficiency.

## **Compliance and Other Matters**

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

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

## **Villisca Community School District's Responses to Findings**

Villisca Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Villisca Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 27, 2015  
Newton, Iowa

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

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-14 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The following are areas in the District's internal control where duties appear to be incompatible:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 3) Disbursements - purchase order processing, check preparation, mailing and recording.
- 4) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 5) Financial reporting - preparing, reconciling and approving.
- 6) Computer systems - performing all general accounting functions and controlling all data input and output.
- 7) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.
- 8) Journal entries - writes, approves and posts journal entries to the accounting records
- 9) Long term debt - records, posts and reconciles the long term debt.
- 10) Capital assets - records and reconciles the capital asset listing.

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

Response - The District will investigate available alternatives to obtain the maximum internal control possible under the circumstances utilizing current personnel, including elected officials and implement them as soon as possible.

Conclusion - Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-14 Certified Budget - During the year ended June 30, 2014, District expenditures in the instruction, support services and other expenditures functional areas as well as expenditures in total exceeded the amounts budgeted.

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 - In the future, the District will amend the budget when necessary.

Conclusion - Response accepted.

II-B-14 Questionable Disbursements - We noted during our audit that gift cards were purchased to be given as gifts to retiring teachers. The purchase of gift cards does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - Gift cards are not an appropriate District purchase since Iowa Code Section 279.29 requires districts to "audit and allow" all bills and the gift card does not provide the board with the ability to perform the required function of approval of the final purchase. The District should refrain from purchasing gift cards to be given as prizes, gifts or incentives.

Further, gift cards are considered a cash equivalent and giving these as part of a teacher appreciation does not qualify for an exclusion per IRS Publication 525. The amount received by the employee should be included in taxable income and reported on the employee's w-2 wages per IRS publication 525.

Response - The District will refrain from purchasing gift card to be given as prizes, gifts or incentives.

Conclusion - Response accepted.

II-C-14 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted an instance of reimbursement to an employee for meals while traveling which lacked a detailed receipt. According to board policy number 401.10, "Employees and officers using a school district credit card must submit a detailed receipt in addition to a credit card receipt indicating the date, purpose, and nature of the expense for each claim item."

Recommendation - The District should review procedures to ensure compliance with board policy number 401.10.

Response - The District has reviewed its procedures to ensure compliance with board policy by having employees and officers using a school district credit card submit detailed receipts along with indicating the date, purpose, and nature of the expense for each claim item.

Conclusion - Response accepted.

II-D-14 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tom Williams - Board Member Owner of TAW COMP	Services	\$306

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member does not appear to represent a conflict of interest.

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

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

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

II-H-14 Supplementary Weighting - We noted the operational sharing data certified to the Iowa Department of Education was understated by 10.0 students.

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

Response - The District's auditors will contact the Iowa Department of Education and the Iowa Department of Management to resolve this matter.

Conclusion - Response accepted.

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

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

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

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

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

Beginning balance		\$ 521,182
Revenues:		
Sales tax revenues	\$ 294,561	
Other local revenues	2,839	
Issuance of revenue bonds	<u>1,000,000</u>	<u>1,297,400</u>
		1,818,582
Expenditures:		
School infrastructure construction	\$ 1,340,729	
Equipment	248,542	
Other	<u>117,014</u>	<u>1,706,285</u>
Ending balance		<u>\$ 112,297</u>

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

II-M-14 Non-certified Time Sheets - We noted during our audit that the District does not maintain documentation of hours worked by coaches who are non-certified staff. This creates a situation where calculating wage per hour amounts is not possible.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified coaches. The District should then determine if wages paid comply with minimum wage and overtime requirements.

Response - The District will maintain documentation of hours worked by coaches who are non-certified staff, to determine if wages paid comply with minimum wage and overtime requirements.

Conclusion - Response accepted.

II-N-14 Student Activity Fund -During our audit issues arose about the appropriateness of certain expenditures from the Student Activity Fund. In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. We noted that the District purchased library books and paid for fieldtrips to the Henry Doorly Zoo and the Rose Performing Arts.

Recommendation - The purchase of library books and the fieldtrips appear to be part of the instructional activities of the District and do not appear to be cocurricular or extracurricular in nature and would be more appropriately accounted for in a different fund.

Response - The District has moved the Elementary Club Fund to the General Fund since this is more appropriate location for these transactions.

Conclusion - Response accepted.