

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT**

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

**JUNE 30, 2015**

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South O'Brien Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
<b>Board of Education</b>		
Sue McCauley	President	2015
Tom Wagner	Vice President	2015
Todd Faust	Board Member	2015
Sandy Fritz	Board Member	2015
Kevin Nelson	Board Member	2017
Darrell Rehder	Board Member	2017
Gina Paulsen	Board Member	2017
<b>School Officials</b>		
Dan Moore	Superintendent	2015
Sharla Rupert	District Secretary	2015
Marty Weber	District Treasurer	2015
De Ann Lansink	Business Manager	2015
Ahlers & Cooney, P.C.	Attorney	2015

**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 South O'Brien 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 South O'Brien Community School District, Paullina, Iowa, as of and for the year ended June 30, 2015, 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.

The financial statements of the South O'Brien School Foundation have not been audited, and we were not engaged to audit the Foundation financial statements as part of our audit of the South O'Brien Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Foundation's financial statements and because we did not apply any auditing procedures to the Foundation's financial statements, we do not express an opinion on the discretely presented component unit.

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 South O'Brien Community School District as of June 30, 2015, 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.

### **Emphasis of Matter**

As discussed in Note 14 to the financial statements, South O'Brien Community School District adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of the District Contributions and the Schedule of Funding Progress for the Retiree Health Plan and the financial statements for the discretely presented component unit on pages 7 through 16 and 44 through 52 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 South O'Brien Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2014 (which are not presented herein) and expressed an unmodified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended June 30, 2012 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial

statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2016 on our consideration of South O'Brien 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 South O'Brien Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 10, 2016  
Newton, Iowa

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

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The South O'Brien 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, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2015 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$7,256,159 in fiscal year 2014 compared to \$7,370,962 in fiscal year 2015, while General Fund expenditures decreased from \$7,332,076 in fiscal year 2014 compared to \$7,272,113 in fiscal year 2015. This resulted in an increase in the District's General Fund balance from \$911,860 in fiscal year 2014 to a balance of \$1,010,709 in fiscal year 2015, a 10.84% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources. The decrease in expenditures was due primarily to a decrease in the instruction functional areas.

### **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 South O'Brien 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 South O'Brien 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 South O'Brien Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of net pension liability and related contributions, as well as presenting the schedule of funding progress for the retiree health plan and the financial statements for the discretely presented component unit.

The Supplementary Information provides detailed information about the nonmajor governmental funds and Capital Projects Accounts.

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

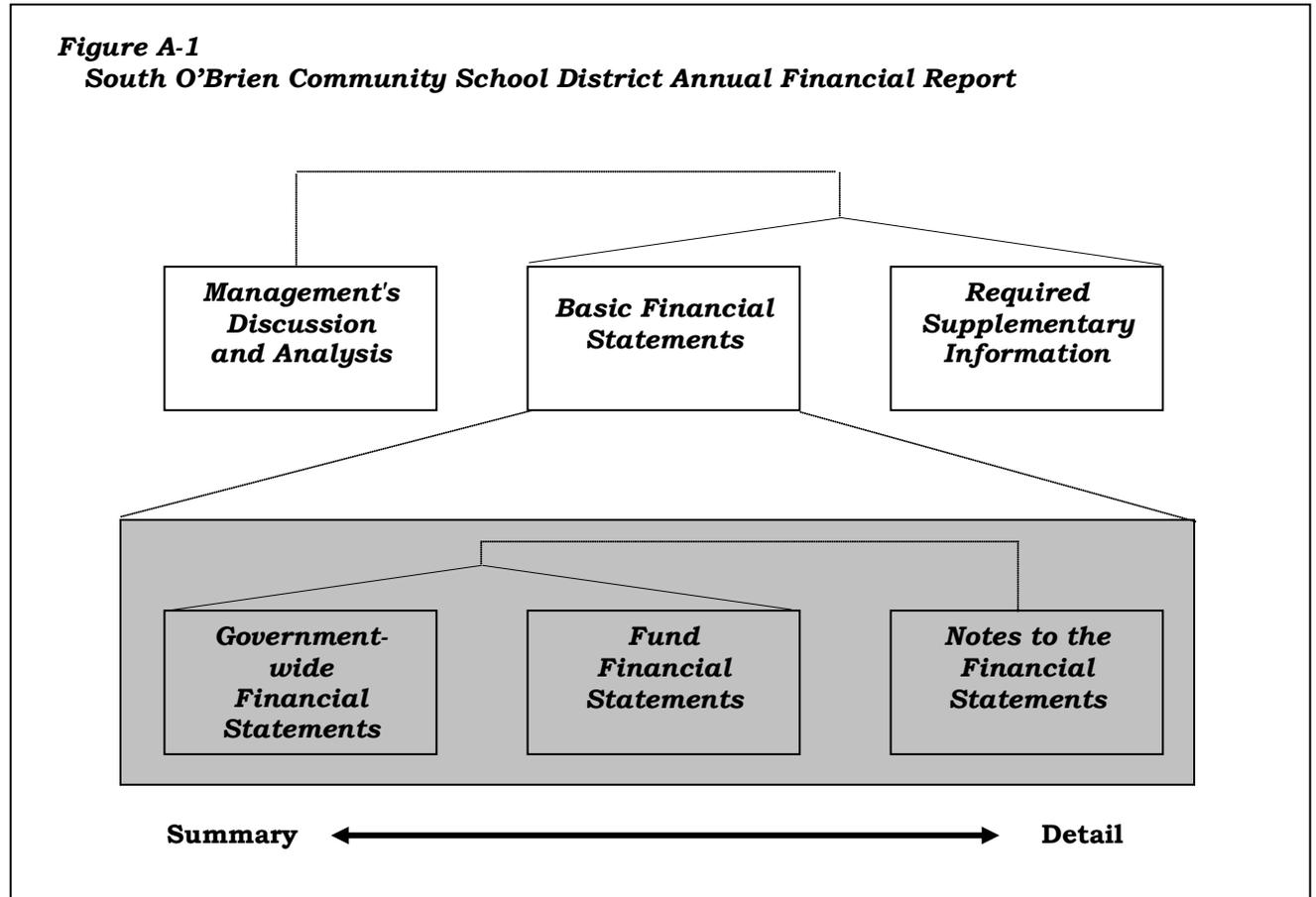


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2</b>				
<b>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 service, Wolverine Snack Shack	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 deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of fund balance that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period	Consumption/ acquisition of net position that is applicable to a future reporting period.
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

The District is responsible for ensuring 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, 2015 compared to June 30, 2014.

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,	
	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2014-15
Current and other assets	\$ 8,602,218	7,458,587	89,053	60,293	8,691,271	7,518,880	15.59%
Capital assets	4,829,489	4,982,069	24,268	32,398	4,853,757	5,014,467	-3.20%
Total assets	13,431,707	12,440,656	113,321	92,691	13,545,028	12,533,347	8.07%
Deferred outflows of resources	599,120	-	12,250	-	611,370	-	100.00%
Long-term liabilities	3,129,457	528,794	55,560	3,348	3,185,017	532,142	498.53%
Other liabilities	808,584	898,184	11,771	10,900	820,355	909,084	-9.76%
Total liabilities	3,938,041	1,426,978	67,331	14,248	4,005,372	1,441,226	177.91%
Deferred inflows of resources	5,333,570	3,936,620	19,342	-	5,352,912	3,936,620	35.98%
Net position:							
Net investment in capital assets	4,829,489	4,982,069	24,268	32,398	4,853,757	5,014,467	-3.20%
Restricted	1,963,765	1,308,971	-	-	1,963,765	1,308,971	50.02%
Unrestricted	(2,034,038)	786,018	14,630	46,045	(2,019,408)	832,063	-342.70%
Total net position	\$ 4,759,216	7,077,058	38,898	78,443	4,798,114	7,155,501	-32.95%

The District's combined net position decreased by 32.95%, or \$2,357,387, over the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$654,794, or 50.02% over the prior year. The increase was

primarily a result of the increases in the Capital Projects: Property Plant and Equipment Levy Fund and Capital Projects: Statewide Sales, Services and Use Tax Fund balances.

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 \$2,851,471, or 342.70%. The reduction in unrestricted net position was primarily a result of the District’s net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$3,122,128 and \$62,092, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-4  
Changes in Net Position

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2014-15
<b>Revenues</b>							
Program revenues and transfers:							
Charges for services	\$ 281,635	385,366	169,058	164,531	450,693	549,897	-18.04%
Operating grants and contributions and restricted interest	701,537	582,966	171,047	150,890	872,584	733,856	18.90%
General revenues:							
Property tax	3,926,185	3,901,704	-	-	3,926,185	3,901,704	0.63%
Income surtax	449,760	452,758	-	-	449,760	452,758	-0.66%
Statewide sales, services and use tax	638,886	564,758	-	-	638,886	564,758	13.13%
Unrestricted state grants	3,083,787	2,982,520	-	-	3,083,787	2,982,520	3.40%
Unrestricted investment earnings	15,825	13,044	384	239	16,209	13,283	22.03%
Other	42,582	28,307	4,126	1,962	46,708	30,269	54.31%
Total revenues and transfers	9,140,197	8,911,423	344,615	317,622	9,484,812	9,229,045	2.77%
<b>Program expenses:</b>							
Governmental activities:							
Instruction	5,444,076	5,644,007	5,828	-	5,449,904	5,644,007	-3.44%
Support services	2,471,597	2,530,709	35,624	31,082	2,507,221	2,561,791	-2.13%
Non-instructional programs	-	-	280,616	272,496	280,616	272,496	2.98%
Other expenses	420,238	393,641	-	-	420,238	393,641	6.76%
Total expenses	8,335,911	8,568,357	322,068	303,578	8,657,979	8,871,935	-2.41%
Change in net position	804,286	343,066	22,547	14,044	826,833	357,110	131.53%
Net position beginning of year, as restated	3,954,930	6,733,992	16,351	64,399	3,971,281	6,798,391	-41.58%
Net position end of year	\$ 4,759,216	7,077,058	38,898	78,443	4,798,114	7,155,501	-32.95%

In fiscal 2015, property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 88.60% of the revenue from governmental activities while charges for service and operating grants and contributions account for 98.69% of the revenue from business type activities.

The District's total revenues were \$9,484,812 of which \$9,140,197 was for governmental activities and \$344,615 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.77% increase in revenues and a 2.41% decrease in expenses. The decrease in expenses was primarily due to the decrease in the instruction functional area.

### Governmental Activities

Revenues for governmental activities were \$9,140,197 and expenses were \$8,335,911 for the year ended June 30, 2015.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Service		
	2015	2014 (Not Restated)	Change 2014-15	2015	2014 (Not Restated)	Change 2014-15
	Instruction	\$ 5,444,076	5,644,007	-3.54%	4,812,198	4,996,892
Support services	2,471,597	2,530,709	-2.34%	2,412,747	2,486,512	-2.97%
Other expenses	420,238	393,641	6.76%	127,794	116,621	9.58%
Totals	\$ 8,335,911	8,568,357	-2.71%	7,352,739	7,600,025	-3.25%

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$281,635.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$701,537.
- The net cost of governmental activities was financed with \$3,926,185 in local tax, \$449,760 in income surtax, \$638,886 in statewide sales, services and use tax, \$3,083,787 in unrestricted state grants, \$15,825 in unrestricted investment earnings, \$42,582 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities during the year ended June 30, 2015 were \$344,615 and expenses were \$322,068. The District's business type activities include the School Nutrition Fund and the Wolverine Snack Shack Fund. Revenues of these activities were comprised of charges for service and federal and state reimbursements, interest income, and capital contributions from the governmental funds.

### INDIVIDUAL FUND ANALYSIS

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

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The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,997,599, above last year's ending fund balances of \$2,256,540. The increase in the combined fund balances is attributable to the increase in the Capital Projects: Property Plant and Equipment Levy Fund and Capital Projects: Statewide Sales, Services and Use Tax Fund balances.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in local and state sources resulted in an increase in revenues. The increase in revenues and the decrease in General Fund expenditures, resulted in a increase in fund balance from \$911,860 to \$1,010,709.
- The Capital Projects Fund balance increased from \$1,108,095 to \$1,696,901. The increase in revenues and the decrease in Capital Project expenditures resulted in an increase in fund balance of \$588,806.

### **Proprietary Fund Highlights**

The School Nutrition Fund net position increased from \$4,743 at June 30, 2014 to \$21,811 at June 30, 2015, representing a 360% increase. The Wolverine Snack Shack net position increased from \$11,608 at June 30, 2014 to \$17,087 at June 30, 2015.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$68,413 less than budgeted revenues, a variance of 0.72%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2015, the District had invested \$4,853,757, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.20% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$464,147.

The original cost of the District's capital assets was \$12,113,023. Governmental funds account for \$11,898,068 with the remainder of \$214,955 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress total \$83,979 at June 30, 2014 compared to \$0 reported at June 30, 2014. This increase is due from architect fees for the elementary renovation project.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
Land	\$ 68,514	68,514	-	-	68,514	68,514	0.00%
Buildings	3,512,363	3,586,948	-	-	3,512,363	3,586,948	-2.08%
Land improvements	228,100	207,299	-	-	228,100	207,299	10.03%
Machinery and equipment	936,533	1,119,308	24,268	32,398	960,801	1,151,706	-16.58%
Construction in progress	83,979	-	-	-	83,979	-	100.00%
Total	\$ 4,829,489	4,982,069	24,268	32,398	4,853,757	5,014,467	-3.20%

### Long-Term Debt

At June 30, 2015, the District had \$3,185,017 in total long-term debt outstanding. This represents an increase of 498.53% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had outstanding termination benefits payable from the Management Levy Fund of \$410,908 at June 30, 2015.

The District had a net OPEB liability of \$173,257 at June 30, 2015.

The District has outstanding Net Pension Liability at June 30, 2015 of \$2,600,852. The Governmental Activities accounted for \$2,550,135 of the total while the Business Type Activities accounted for \$50,717.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
		(Not Restated)		(Not Restated)		(Not Restated)	
Termination benefits	\$ 410,908	412,370	-	-	410,908	412,370	-0.35%
Net pension liability	2,550,135	-	50,717	-	2,600,852	-	100.00%
Net OPEB liability	168,414	116,424	4,843	3,348	173,257	119,772	44.66%
Total	\$ 3,129,457	528,794	55,560	3,348	3,185,017	532,142	498.53%

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

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

- The District has levied for additional cash reserves in the past and will continue to levy for These funds to help offset any reduction in funding from the State of Iowa. The Supplemental State Aid funding from the State of Iowa for fiscal year 2016 was set at 1.25%. The Supplemental State Aid for fiscal year 2017 has not been set as required by Iowa statute. Supplemental State Aid for fiscal year 2017 will not be set until the Legislative session begins in January 2016. Two of

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the biggest items which necessitate the need for additional cash reserves are inadequate levels of Supplemental State Aid and the fluctuation of the District's enrollment.

- The residents of the District voted and passed a revised Revenue Purpose Statement to authorize the use of revenue from the statewide sales, services and use tax funds from the State of Iowa to the Secure an Advanced Vision for Education Fund for School Infrastructure on September 10, 2013.
- The District approved a five year extension in May of 2013 of the Instructional Support Levy to continue funding for educational programs and technology.
- At the time of the audit completion, negotiations for the fiscal year 2017 wage agreement with South O'Brien Education Association had not started. Any increase in the total compensation/benefit package will have an effect on the economic future of the District.
- The District had an enrollment decline of 44 students in 2014-2015 so a reduction in expenditures will need to occur in fiscal year 2016.

### **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 Dee Ann Lansink, School Business Manager, South O'Brien Community School District, 206 South Rutledge Street, Paullina, Iowa, 51046.

## BASIC FINANCIAL STATEMENTS

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	South O'Brien School Foundation
<b>Assets</b>				
Cash, cash equivalents and pooled investments	\$ 3,512,664	79,060	3,591,724	53,317
Receivables:				
Property tax:				
Delinquent	60,084	-	60,084	-
Succeeding year	4,361,022	-	4,361,022	-
Income surtax	435,013	-	435,013	-
Accounts	5,109	1,286	6,395	-
Due from other governments	228,326	-	228,326	-
Inventories	-	8,707	8,707	-
Capital assets, net of accumulated depreciation	4,829,489	24,268	4,853,757	-
<b>Total assets</b>	<b>13,431,707</b>	<b>113,321</b>	<b>13,545,028</b>	<b>53,317</b>
<b>Deferred Outflows of Resources</b>				
Pension related deferred outflows	599,120	12,250	611,370	-
<b>Liabilities</b>				
Accounts payable	189,989	-	189,989	-
Salaries and benefits payable	618,595	5,648	624,243	-
Unearned revenue	-	6,123	6,123	-
Long-term liabilities:				
Portion due within one year:				
Termination benefits	123,667	-	123,667	-
Portion due after one year:				
Termination benefits	287,241	-	287,241	-
Net pension liability	2,550,135	50,717	2,600,852	-
Net OPEB liability	168,414	4,843	173,257	-
<b>Total liabilities</b>	<b>3,938,041</b>	<b>67,331</b>	<b>4,005,372</b>	<b>-</b>
<b>Deferred inflows of resources</b>				
Pension related deferred inflows	972,548	19,342	991,890	-
Unavailable property tax revenues	4,361,022	-	4,361,022	-
<b>Total deferred inflows of resources</b>	<b>5,333,570</b>	<b>19,342</b>	<b>5,352,912</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	4,829,489	24,268	4,853,757	-
Restricted for:				
Categorical funding	155,405	-	155,405	-
School infrastructure	1,015,654	-	1,015,654	-
Physical plant and equipment	681,247	-	681,247	-
Student activities	111,459	-	111,459	-
Unrestricted	(2,034,038)	14,630	(2,019,408)	53,317
<b>Total net position</b>	<b>\$ 4,759,216</b>	<b>38,898</b>	<b>4,798,114</b>	<b>53,317</b>

SEE NOTES TO FINANCIAL STATEMENTS.

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit South O'Brien School Foundation
	Expenses	Charges for Services	Operating Grants, and Restricted Interest	Governmental Activities	Primary Government		
					Business Type Activities	Total	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 2,990,093	80,714	66,047	(2,843,332)	-	(2,843,332)	-
Special	1,210,635	30,064	66,138	(1,114,433)	-	(1,114,433)	-
Other	1,243,348	164,826	224,089	(854,433)	-	(854,433)	-
	<u>5,444,076</u>	<u>275,604</u>	<u>356,274</u>	<u>(4,812,198)</u>	<u>-</u>	<u>(4,812,198)</u>	<u>-</u>
Support services:							
Student	91,017	-	-	(91,017)	-	(91,017)	-
Instructional staff	402,816	-	3,050	(399,766)	-	(399,766)	-
Administration	844,321	-	-	(844,321)	-	(844,321)	-
Operation and maintenance of plant	710,992	-	-	(710,992)	-	(710,992)	-
Transportation	422,451	6,031	49,769	(366,651)	-	(366,651)	-
	<u>2,471,597</u>	<u>6,031</u>	<u>52,819</u>	<u>(2,412,747)</u>	<u>-</u>	<u>(2,412,747)</u>	<u>-</u>
Other expenditures:							
AEA flowthrough	292,444	-	292,444	-	-	-	-
Depreciation(unallocated)*	127,794	-	-	(127,794)	-	(127,794)	-
	<u>420,238</u>	<u>-</u>	<u>292,444</u>	<u>(127,794)</u>	<u>-</u>	<u>(127,794)</u>	<u>-</u>
Total governmental activities	<u>8,335,911</u>	<u>281,635</u>	<u>701,537</u>	<u>(7,352,739)</u>	<u>-</u>	<u>(7,352,739)</u>	<u>-</u>
Business Type activities:							
Instruction							
Regular	5,828	-	-	-	(5,828)	(5,828)	-
Support services							
Administration	33,750	-	-	-	(33,750)	(33,750)	-
Operation and maintenance of plant	1,874	-	-	-	(1,874)	(1,874)	-
	<u>41,452</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,452)</u>	<u>(41,452)</u>	<u>-</u>
Non-instructional programs:							
Food service operations	280,616	160,523	171,047	-	50,954	50,954	-
Wolverine Snack Shack	-	8,535	-	-	8,535	8,535	-
Total business type activities	<u>322,068</u>	<u>169,058</u>	<u>171,047</u>	<u>-</u>	<u>18,037</u>	<u>18,037</u>	<u>-</u>
Total Primary Government	<u>\$ 8,657,979</u>	<u>450,693</u>	<u>872,584</u>	<u>(7,352,739)</u>	<u>18,037</u>	<u>(7,334,702)</u>	<u>-</u>
Total Component Unit	<u>\$ 4,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,000)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes				\$ 3,560,876	-	3,560,876	-
Capital outlay				365,309	-	365,309	-
Income surtax				449,760	-	449,760	-
Statewide sales, services and use tax				638,886	-	638,886	-
Unrestricted state grants				3,083,787	-	3,083,787	-
Unrestricted investment earnings				15,825	384	16,209	250
Other				42,582	4,126	46,708	-
Total general revenues				<u>8,157,025</u>	<u>4,510</u>	<u>8,161,535</u>	<u>250</u>
Changes in net position				804,286	22,547	826,833	(3,750)
Net position beginning of year, as restated				3,954,930	16,351	3,971,281	57,067
Net position end of year				<u>\$ 4,759,216</u>	<u>38,898</u>	<u>4,798,114</u>	<u>53,317</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Capital Projects	Nonmajor	Total
<b>Assets</b>				
Cash, cash equivalents and pooled investments	\$ 1,540,773	1,685,635	286,256	3,512,664
Receivables:				
Property tax:				
Delinquent	49,242	5,494	5,348	60,084
Succeeding year	3,547,647	478,375	335,000	4,361,022
Income surtax	261,008	174,005	-	435,013
Accounts	2,211	-	2,898	5,109
Due from other governments	129,626	98,700	-	228,326
<b>Total assets</b>	<b>\$ 5,530,507</b>	<b>2,442,209</b>	<b>629,502</b>	<b>8,602,218</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 92,548	92,928	4,513	189,989
Salaries and benefits payable	618,595	-	-	618,595
Total liabilities	711,143	92,928	4,513	808,584
Deferred inflows of resources				
Unavailable revenue:				
Succeeding year property tax	3,547,647	478,375	335,000	4,361,022
Income surtax	261,008	174,005	-	435,013
Total deferred inflows of resources	3,808,655	652,380	335,000	4,796,035
Fund balances:				
Restricted for:				
Categorical funding	155,405	-	-	155,405
Management levy purposes	-	-	179,642	179,642
School infrastructure	-	1,015,654	-	1,015,654
Physical plant and equipment	-	681,247	-	681,247
Student activities	-	-	111,459	111,459
Unassigned				
General	855,304	-	-	855,304
Student activities	-	-	(1,112)	(1,112)
Total fund balances	1,010,709	1,696,901	289,989	2,997,599
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 5,530,507</b>	<b>2,442,209</b>	<b>629,502</b>	<b>8,602,218</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2015

<b>Total fund balances of governmental funds(page 20)</b>		\$ 2,997,599
 <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.		4,829,489
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		435,013
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 599,120	
Deferred inflows of resources	<u>(972,548)</u>	(373,428)
Long-term liabilities, including termination benefits payable net pension liability and other postemployment benefits payable, are not due and payable in the current period and, therefore are not reported in governmental funds.		<u>(3,129,457)</u>
<b>Net position of governmental activities(page 18)</b>		<u><u>\$ 4,759,216</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 3,440,008	518,105	350,062	4,308,175
Tuition	89,172	-	-	89,172
Other	80,122	6,981	189,378	276,481
State sources	3,529,375	640,467	1,423	4,171,265
Federal sources	227,334	-	-	227,334
Total revenues	<u>7,366,011</u>	<u>1,165,553</u>	<u>540,863</u>	<u>9,072,427</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,715,745	59,092	147,261	2,922,098
Special	1,211,522	2,270	-	1,213,792
Other	1,023,152	5,480	189,621	1,218,253
	<u>4,950,419</u>	<u>66,842</u>	<u>336,882</u>	<u>5,354,143</u>
Support services:				
Student	103,528	-	-	103,528
Instructional staff	266,947	85,029	-	351,976
Administration	756,719	4,700	82,723	844,142
Operation and maintenance of plant	542,034	66,779	50,706	659,519
Transportation	360,022	99,195	17,148	476,365
	<u>2,029,250</u>	<u>255,703</u>	<u>150,577</u>	<u>2,435,530</u>
Capital outlay	-	254,202	-	254,202
Other expenditures:				
AEA flowthrough:	292,444	-	-	292,444
Total expenditures	<u>7,272,113</u>	<u>576,747</u>	<u>487,459</u>	<u>8,336,319</u>
Excess(deficiency) of revenues over(under) expenditures	93,898	588,806	53,404	736,108
Other financing sources:				
Sale of equipment	4,951	-	-	4,951
Change in fund balances	98,849	588,806	53,404	741,059
Fund balances beginning of year	911,860	1,108,095	236,585	2,256,540
Fund balances end of year	<u>\$ 1,010,709</u>	<u>1,696,901</u>	<u>289,989</u>	<u>2,997,599</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN 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, 2015

**Net change in fund balances - total governmental funds(page 22)** \$ 741,059

*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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year, are as follows:

Expenditures for capital assets	\$ 304,395	
Depreciation expense	(456,321)	
Loss on disposal of capital assets	(654)	(152,580)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 67,770

The Current year District share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflows of resources in the Statement of Net Position 402,584

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	1,462	
Pension Expence	(204,019)	
Other postemployment benefits	(51,990)	(254,547)

**Change in net position of governmental activities(page 19)** \$ 804,286

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2015

	Enterprise		Total
	School Nutrition	Wolverine Snack Shack	
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ 63,259	15,801	79,060
Accounts receivable	-	1,286	1,286
Inventories	8,707	-	8,707
<b>Total current assets</b>	<b>71,966</b>	<b>17,087</b>	<b>89,053</b>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	24,268	-	24,268
<b>Total assets</b>	<b>96,234</b>	<b>17,087</b>	<b>113,321</b>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	12,250	-	12,250
<b>Liabilities</b>			
Current liabilities:			
Salaries and benefits payable	5,648	-	5,648
Unearned revenues	6,123	-	6,123
<b>Total current liabilities</b>	<b>11,771</b>	<b>-</b>	<b>11,771</b>
Noncurrent liabilities:			
Net pension liability	50,717	-	50,717
Net OPEB liability	4,843	-	4,843
<b>Total noncurrent liabilities</b>	<b>55,560</b>	<b>-</b>	<b>55,560</b>
<b>Total liabilities</b>	<b>67,331</b>	<b>-</b>	<b>67,331</b>
<b>Deferred Inflows of Resources</b>			
Pension related deferred inflows	19,342	-	19,342
<b>Net position</b>			
Net investment in capital assets	24,268	-	24,268
Unrestricted	(2,457)	17,087	14,630
<b>Total net position</b>	<b>\$ 21,811</b>	<b>17,087</b>	<b>38,898</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2015

	Enterprise		Total
	School Nutrition	Wolverine Snack Shack	
Operating revenue:			
Local sources:			
Charges for services	\$ 160,523	8,535	169,058
Miscellaneous	1,428	2,698	4,126
Total operating revenues:	<u>161,951</u>	<u>11,233</u>	<u>173,184</u>
Operating expenses:			
Instructional:			
Regular	-	5,828	5,828
Support services:			
Administration:			
Salaries	22,769	-	22,769
Benefits	9,889	-	9,889
Other	1,092	-	1,092
Operation and maintenance of plant:			
Services	1,874	-	1,874
	<u>35,624</u>	<u>5,828</u>	<u>41,452</u>
Non-instructional programs:			
Salaries	73,272	-	73,272
Benefits	26,319	-	26,319
Services	174	-	174
Supplies	172,721	-	172,721
Depreciation	7,826	-	7,826
	<u>280,312</u>	<u>-</u>	<u>280,312</u>
Total operating expenses	<u>315,936</u>	<u>5,828</u>	<u>321,764</u>
Operating gain(loss)	<u>(153,985)</u>	<u>5,405</u>	<u>(148,580)</u>
Non-operating revenues(expense)			
State sources	2,760	-	2,760
Federal sources	168,287	-	168,287
Loss on Disposal of equipment	(304)	-	(304)
Interest income	310	74	384
Total non-operating revenues	<u>171,053</u>	<u>74</u>	<u>171,127</u>
Change in net position	17,068	5,479	22,547
Net position beginning of year	<u>4,743</u>	<u>11,608</u>	<u>16,351</u>
Net position end of year	<u>\$ 21,811</u>	<u>17,087</u>	<u>38,898</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2015

	Enterprise		
	School Nutrition	Wolverine Snack Shack	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 161,798	7,249	169,047
Cash received from miscellaneous operating activities	1,428	2,698	4,126
Cash payments to employees for services	(135,227)	-	(135,227)
Cash payments to suppliers for goods or services	(149,532)	(5,828)	(155,360)
Net cash provided by(used in) operating activities	<u>(121,533)</u>	<u>4,119</u>	<u>(117,414)</u>
Cash flows from non-capital financing activities:			
State grants received	2,760	-	2,760
Federal grants received	138,087	-	138,087
Net cash provided by non-capital financing activities	<u>140,847</u>	<u>-</u>	<u>140,847</u>
Cash flows from investing activities:			
Interest on investments	310	74	384
Net cash provided by investing activities	<u>310</u>	<u>74</u>	<u>384</u>
Cash and cash equivalents at beginning of year	<u>43,635</u>	<u>11,608</u>	<u>55,243</u>
Cash and cash equivalents at end of year	<u>\$ 63,259</u>	<u>15,801</u>	<u>79,060</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating gain(loss)	\$ (153,985)	5,405	(148,580)
Adjustments to reconcile operating gain(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	30,334	-	30,334
Depreciation	7,826	-	7,826
Increase in inventories	(4,005)	-	(4,005)
Decrease(Increase) in accounts receivable	214	(1,286)	(1,072)
Decrease in salaries and benefits payable	(190)	-	(190)
Increase in unearned revenue	1,061	-	1,061
Decrease in net pension liability	(18,848)	-	(18,848)
Increase in deferred outflows of resources	(4,777)	-	(4,777)
Increase in deferred inflows of resources	19,342	-	19,342
Increase in other postemployment benefits payable	1,495	-	1,495
Net cash provided by(used in) operating activities	<u>\$ (121,533)</u>	<u>4,119</u>	<u>(117,414)</u>

Non-cash investing, capital, and financing activities:

During the year ended June 30, 2015, the District received Federal commodities valued at \$30,334.

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust</u> <u>Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	\$ 2,740
<b>Liabilities</b>	<u>-</u>
<b>Net position</b>	
Held in trust for scholarships	<u>\$ 2,740</u>

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2015

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest income	\$ 11
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	350
Change in net position	(339)
Net position beginning of year	3,079
Net position end of year	\$ 2,740

SEE NOTES TO FINANCIAL STATEMENTS.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

**Note 1. Summary of Significant Accounting Policies**

The South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served primarily includes the Cities of Paullina, Primghar, Sutherland and Calumet, Iowa and the predominately agricultural territory in a portion of O'Brien, Cherokee, and Clay 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, South O'Brien 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.

Discretely Presented Component Unit - The South O'Brien Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The trustees are elected from nominations submitted by the Board of Education of the District. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a governmental fund in these financial statements.

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

B. Basis of Presentation

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

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

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

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

*Unrestricted net position* consists of net position not meeting 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 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 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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities and the collection and use of the statewide sales and services tax.

The District reports the following nonmajor proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Enterprise, Wolverine Snack Shack Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Wolverine Snack Shack Fund is used to account for the operations of the District's snack store.

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

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

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

#### D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which are 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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2014.

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 repair 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	\$ 500
Buildings	2,500
Land improvements	2,500
Intangible assets	75,000
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 (In Years)
Buildings	15-50 years
Land improvements	15-50 years
Intangible assets	5-10 years
Machinery and equipment	5-15 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred inflows of resources consist of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred inflows of resources in 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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 balance sheet in the Enterprise, 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.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Equity - 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.

#### **Note 2. Cash and Pooled Investments**

The District's deposits at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States

government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2015, The District has investment on the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which is valued at an amortized cost of \$9 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

**Note 3. Capital Assets**

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 68,514	-	-	68,514
Construction in Progress	-	83,979	-	83,979
Total capital assets not being depreciated	68,514	83,979	-	152,493
Capital assets being depreciated:				
Buildings	7,267,614	38,188	-	7,305,802
Land improvements	381,307	35,822	-	417,129
Machinery and equipment	4,019,397	146,406	143,159	4,022,644
Total capital assets being depreciated	11,668,318	220,416	143,159	11,745,575
Less accumulated depreciation for:				
Buildings	3,680,666	112,773	-	3,793,439
Land improvements	174,008	15,021	-	189,029
Machinery and equipment	2,900,089	328,527	142,505	3,086,111
Total accumulated depreciation	6,754,763	456,321	142,505	7,068,579
Total capital assets being depreciated, net	4,913,555	(235,905)	654	4,676,996
Governmental activities capital assets, net	\$ 4,982,069	(151,926)	654	4,829,489
Business type activities:				
Machinery and equipment	\$ 215,684	-	729	214,955
Less accumulated depreciation	183,286	7,826	425	190,687
Business-type activities capital assets, net	\$ 32,398	(7,826)	304	24,268

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 156,723
Other	33,174
Support services:	
Instructional	51,828
Operation and maintenance	46,192
Transportation	40,610
	<u>328,527</u>
Unallocated depreciation	<u>127,794</u>
Total governmental activities depreciation expense	<u>\$ 456,321</u>
Business type activities:	
Food services	<u>\$ 7,826</u>

#### **Note 4. Long-Term Debt**

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year Restated	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Termination Benefits	\$ 412,370	143,465	144,927	410,908	123,667
Net pension liability	3,497,867	-	947,732	2,550,135	-
Net OPEB liability	116,424	51,990	-	168,414	-
	<hr/>				
Total	\$ 4,026,661	195,455	1,092,659	3,129,457	123,667
	<hr/>				
	Balance Beginning of Year Restated	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net pension liability	\$ 69,565	-	18,848	50,717	-
Net OPEB liability	3,348	1,495	-	4,843	-
Total	\$ 72,913	1,495	18,848	55,560	-

#### **Note 5. Termination Benefits**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

The 2015 early retirement incentive was \$20,000 per retiree, which is paid to a special pay plan, and will be paid over 5 years. At June 30, 2015, the District has obligations to 22 participants with a total liability of \$410,908. Actual early retirement expenditures for the year ended June 30, 2015 totaled \$144,927.

#### **Note 6. Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees'

Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$410,926.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$2,600,852 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.064265 percent, which was an increase of 0.001258 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$208,078. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,266	\$ -
Changes of assumptions	114,781	-
Net difference between projected and actual earnings on pension plan investments	-	991,890
Changes in proportion and differences between District contributions and proportionate share of contributions	57,397	-
District contributions subsequent to the measurement date	410,926	-
<b>Total</b>	<b>\$ 611,370</b>	<b>\$ 991,890</b>

\$410,926 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (201,140)
2017	(201,140)
2018	(201,140)
2019	(201,140)
2020	13,113
	<u>\$ (791,447)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentagepoint higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 4,914,237	\$ 2,600,852	\$ 648,116

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$55,745 for legally required employer contributions and \$37,143 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. There are 76 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs 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, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 61,382
Interest on net OPEB obligation	2,994
Adjustment to annual required contribution	<u>(6,598)</u>
Annual OPEB cost	57,778
Contributions made	<u>(4,293)</u>
Increase in net OPEB obligation	53,485
Net OPEB obligation beginning of year	<u>119,772</u>
Net OPEB obligation end of year	<u>\$ 173,257</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

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, 2015 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 53,195	7.79%	\$ 70,407
2014	52,529	6.02%	119,772
2015	57,778	7.43%	173,257

**Funded Status and Funding Progress** - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$374,924 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$374,924. The covered payroll (annual payroll of active employees covered by the plan was \$3,874,581, and the ratio of the UAAL to covered payroll was 9.68%. As of June 30, 2015, there were no trust fund assets.

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

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**Note 8. Risk Management**

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

**Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$292,444 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 10. Categorical Funding**

The District’s restricted balance for categorical funding at June 30, 2015 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Successful Progression for Early Readers	\$ 25,867
Teacher Leadership Grants	1,734
Teacher Salary Supplement	12,769
Professional Development	8,455
Gifted and Talented	75,336
Four-Year Old Preschool State Aid	16,532
Professional Development for Model Core Curriculum	<u>14,712</u>
Total	<u>\$ 155,405</u>

**Note 11. Deficit Unassigned Balance**

During the year ended June 30, 2015 the District had two accounts in the Student Activity Fund with a deficit unassigned fund balance of \$1,112. The District had deficit unassigned fund balance in the governmental activities fund of \$2,034,038 at June 30, 2015. The District has deficit unrestricted net position of \$2,457 in the Nutrition fund at June 30, 2015.

**Note 12. 28E Organization**

The District is part of a 28E organization with the City of Paullina for the separate entity named the Swanson Sports Complex Commission (referred to hereafter as Commission). The Commission was established for the purpose of developing, supervising and managing a sports complex that includes fields for baseball, softball, tennis and other such recreational areas that can be utilized by the District and the residents of the City of Paullina.

The governing body of the Commission consists of three representatives appointed to staggered three year terms. Representatives of the Commission consist of one representative from the City of Paullina (appointed by the Paullina City Council); one representative from the District (appointed by the Board of Education) and one representative selected from residents of the District (appointed by joint decision of the Board President of the District and the Mayor of the City of Paullina).

The following are terms agreed upon by the District and the City of Paullina concerning the Commission:

The District and the City jointly own the property where the sports complex is located and are to share equally in the operational and maintenance costs of the sports complex.

Any contracts for purchases of goods or services over \$1,000 must have the approval of the District and the City of Paullina.

The Commission has the power to set rental rates, enter into debt agreements, accept donations, grants, labor or supplies for maintenance and operation of the sports complex.

The Commission shall prepare an annual budget for its operation for fiscal years ending June 30<sup>th</sup> by February 1<sup>st</sup> of each year for approval by the District and the City of Paullina. The Commission shall provide an annual report to the District and the City of Paullina detailing the annual budget and financial activity of the Commission.

This agreement is to remain in effect until either the District or the City of Paullina wishes to terminate the agreement. The Commission had revenues of \$21,947 and expenses of \$10,943 during the year. If you would like any other information on the Commission, please contact the South O'Brien Community School District.

**Note 13. Detailed Reconciliation of Governmental Fund Balances to Net Position**

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

	Management Levy Purposes	Unassigned/ Restricted Balances
Fund Balance (Exhibit C)	\$ 179,642	855,304
Unassigned student activity fund balance (Exhibit C)	-	(1,112)
Termination benefits payable	(179,642)	(231,266)
Income surtax	-	435,013
Pension related deferred inflows	-	(972,548)
Pension related deferred outflows	-	599,120
Net Pension liability	-	(2,550,135)
Net OPEB liability	-	(168,414)
Net position (Exhibit A)	<u>\$ -</u>	<u>(2,034,038)</u>

**Note 14. Accounting Change/Restatement Note**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business Type Activities
Net position June 30, 2014, as previously reported	\$ 7,077,058	\$ 78,443
Net pension liability at June 30, 2014	(3,497,867)	(69,565)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	375,739	7,473
Net position July 1, 2014, as restated	<u>\$ 3,954,930</u>	<u>\$ 16,351</u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES  
 AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Types		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,673,828	173,568	4,847,396	4,959,885	4,959,885	(112,489)
State sources	4,171,265	2,760	4,174,025	4,150,570	4,150,570	23,455
Federal sources	227,334	168,287	395,621	375,000	375,000	20,621
Total revenues	9,072,427	344,615	9,417,042	9,485,455	9,485,455	(68,413)
Expenditures:						
Instruction	5,354,143	5,828	5,359,971	5,707,150	5,707,150	347,179
Support services	2,435,530	35,624	2,471,154	2,944,750	2,944,750	473,596
Non-instructional programs	-	280,312	280,312	310,000	310,000	29,688
Other expenditures	546,646	-	546,646	1,093,639	1,093,639	546,993
Total expenditures	8,336,319	321,764	8,658,083	10,055,539	10,055,539	1,397,456
Excess(Deficiency) of revenues over(under) expenditures	736,108	22,851	758,959	(570,084)	(570,084)	1,329,043
Other financing sources, net	4,951	(304)	4,647	2,500	2,500	2,147
Excess(Deficiency)of revenues and other financing sources over(under) expenditures	741,059	22,547	763,606	(567,584)	(567,584)	1,331,190
Balance beginning of year	2,256,540	16,351	2,272,891	1,472,294	1,472,294	(800,597)
Balance end of year	\$ 2,997,599	38,898	3,036,497	904,710	904,710	530,593

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2015

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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. 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST FISCAL YEAR\*  
 REQUIRED SUPPLEMENTARY INFORMATION

		2015
District's proportion of the net pension liability		0.064265%
District's proportionate share of the net pension liability	\$	2,600,852
District's covered-employee payroll	\$	4,601,637
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll		56.52%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

\* The amount presented for each fiscal year were determined as of June 30.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is complied, the District will present information for those years for which information is available.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT  
LAST 10 FISCAL YEARS  
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 410,926	383,349	353,306	333,593	278,412	255,549	245,099	221,363	205,969	189,544
Contributions in relation to the statutorily required contribution	(410,926)	(383,349)	(353,306)	(333,593)	(278,412)	(255,549)	(245,099)	(221,363)	(205,969)	(189,544)
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-	-	-
District's covered-employee payroll	\$ 4,601,637	4,292,822	4,075,040	4,133,742	4,005,928	3,676,964	3,859,827	3,658,893	3,582,070	3,296,417
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION- PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION- PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

For 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	\$ -	\$ 562,000	\$ 562,000	0.00%	\$ 3,960,000	14.19%
2011	July 1, 2009	-	522,000	522,000	0.00%	4,100,000	12.73%
2012	July 1, 2009	-	475,000	475,000	0.00%	2,000,000	23.75%
2013	July 1, 2012	-	420,720	420,720	0.00%	4,654,330	9.04%
2014	July 1, 2012	-	404,888	404,888	0.00%	4,240,696	9.55%
2015	July 1, 2012	-	374,924	374,924	0.00%	3,874,581	9.68%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION – CASH BASIS  
COMPONENT UNIT  
JUNE 30, 2015

	South O'Brien School Foundation
Assets	
Cash and cash equivalents	\$ 53,317
Liabilities:	-
Net Position	
Unrestricted net position	\$ 53,317

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND  
CHANGES IN NET POSITION – CASH BASIS  
COMPONENT UNIT  
YEAR ENDED JUNE 30, 2015

	South O'Brien School Foundation
Support and Revenue:	
Interest	\$ 250
Total support and revenue	250
 Expenses:	
Scholarships	4,000
Deficiency of support and revenue under expenses	(3,750)
Net position beginning of year, as restated	57,067
Net position end of year	\$ 53,317

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special Revenue		
	Management Levy	Student Activity	Total
<b>Assets</b>			
Cash, cash equivalents and pooled investments	\$ 174,279	111,977	286,256
Receivables:			
Property tax:			
Delinquent	5,348	-	5,348
Succeeding year	335,000	-	335,000
Accounts	15	2,883	2,898
<b>Total assets</b>	<b>\$ 514,642</b>	<b>114,860</b>	<b>629,502</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	4,513	4,513
Deferred inflows of resources			
Unavailable revenue:			
Succeeding year property tax	335,000	-	335,000
Fund balances:			
Restricted for:			
Management levy purposes	179,642	-	179,642
Student activities	-	111,459	111,459
Unassigned:			
Student activities	-	(1,112)	(1,112)
Total fund balances	179,642	110,347	289,989
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 514,642</b>	<b>114,860</b>	<b>629,502</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET POSITION  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2015

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 350,062	-	350,062
Other	7,913	181,465	189,378
State sources	1,423	-	1,423
Total revenues	<u>359,398</u>	<u>181,465</u>	<u>540,863</u>
Expenditures:			
Current:			
Instruction:			
Regular	147,261	-	147,261
Other	-	189,621	189,621
Support services:			
Administration	82,723	-	82,723
Operation and maintenance of plant	50,706	-	50,706
Transportation	17,148	-	17,148
Total expenditures	<u>297,838</u>	<u>189,621</u>	<u>487,459</u>
Change in fund balances	61,560	(8,156)	53,404
Fund balances beginning of year	<u>118,082</u>	<u>118,503</u>	<u>236,585</u>
Fund balances end of year	<u>\$ 179,642</u>	<u>110,347</u>	<u>289,989</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS ACCOUNTS  
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash, cash equivalents and pooled investments	\$ 933,329	752,306	1,685,635
Receivables:			
Property tax:			
Delinquent	-	5,494	5,494
Succeeding year	-	478,375	478,375
Income surtax	-	174,005	174,005
Due from other governments	98,700	-	98,700
<b>Total assets</b>	<b>\$ 1,032,029</b>	<b>1,410,180</b>	<b>2,442,209</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 16,375	76,553	92,928
Deferred inflows of resources			
Unavailable revenue:			
Succeeding year property tax	-	478,375	478,375
Income surtax	-	174,005	174,005
Total deferred inflows of resources	-	652,380	652,380
Fund balances:			
Restricted for:			
School infrastructure	1,015,654	-	1,015,654
Physical plant and equipment	-	681,247	681,247
Total fund balances	1,015,654	681,247	1,696,901
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,032,029</b>	<b>1,410,180</b>	<b>2,442,209</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND  
 CHANGES IN NET POSITION  
 CAPITAL PROJECTS ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	518,105	518,105
Other	3,937	3,044	6,981
State sources	638,886	1,581	640,467
Total revenues	<u>642,823</u>	<u>522,730</u>	<u>1,165,553</u>
Expenditures:			
Current:			
Instruction:			
Regular	59,092	-	59,092
Special	2,270	-	2,270
Other	291	5,189	5,480
Support services:			
Instructional staff	64,897	20,132	85,029
Administration	-	4,700	4,700
Operation and maintenance of plant	24,075	42,704	66,779
Transportation	-	99,195	99,195
Other expenditures:			
Capital outlay	91,379	162,823	254,202
Total expenditures	<u>242,004</u>	<u>334,743</u>	<u>576,747</u>
Change in fund balances	400,819	187,987	588,806
Fund balances beginning of year	<u>614,835</u>	<u>493,260</u>	<u>1,108,095</u>
Fund balances end of year	<u>\$ 1,015,654</u>	<u>681,247</u>	<u>1,696,901</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund Transfers	Balance End of Year
General athletics	\$ 30,612	68,599	81,990	12,849	30,070
Cross country club	679	868	666	-	881
HS football club	2,885	440	3,325	-	-
Basketball club - boys	1,526	-	1,516	-	10
Baseball club	1,658	1,099	1,718	-	1,039
Track club	112	-	-	-	112
Golf club - boys	563	617	696	-	484
Basketball club - girls	4,002	1,604	4,244	-	1,362
Volleyball club	3,623	1,024	2,597	-	2,050
Softball club	2,065	70	866	-	1,269
Track club - girls	1,310	-	-	-	1,310
Golf club - girls	231	410	543	-	98
Wolverine club	-	13,155	-	(13,155)	-
HS student council	868	2,552	2,458	-	962
FFA	14,209	52,081	50,996	-	15,294
Spanish club	236	-	-	-	236
Model UN	2,859	1,600	1,351	-	3,108
HS cheerleaders	5,006	7,964	7,194	-	5,776
HS science club	740	-	-	-	740
National honor society	950	1,149	1,184	-	915
HS art club	248	-	-	-	248
Dinner theater club	2,720	3,878	3,437	-	3,161
HS vocal music resale	1,586	610	595	-	1,601
Yearbook club	24,937	13,865	13,126	-	25,676
HS speech club	-	255	860	605	-
JH student council	7,136	-	622	-	6,514
JH music club	34	-	-	-	34
TAG club	1,970	-	-	-	1,970
Clothes for kids	2,922	1,000	1,317	-	2,605
Class of 2013	254	-	-	(254)	-
Class of 2014	474	-	675	201	-
Class of 2015	1,282	238	380	54	1,194
Class of 2016	1,802	2,985	4,258	-	529
Class of 2017	280	1,266	-	-	1,546
Class of 2018	-	240	-	-	240
Weight room club	42	2,681	2,298	-	425
Interest	-	300	-	(300)	-
HS Science Club	(455)	-	-	-	(455)
Instrumental music resale	(863)	915	709	-	(657)
<b>Total</b>	<b>\$ 118,503</b>	<b>181,465</b>	<b>189,621</b>	<b>-</b>	<b>110,347</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O' BRIEN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2015

	Private Purpose Trust - Scholarship		
	Ray Ginger Scholarship	Dell Scholarship	Total
ASSETS			
Cash and pooled investments	\$ 596	2,144	2,740
LIABILITIES	-	-	-
NET POSITION			
Held in trust for scholarships	\$ 596	2,144	2,740

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2015

	Private Purpose Trust - Scholarship		
	Ray Ginger Scholarship	Dell Foundation	Total
Additions:			
Local sources:			
Interest income	\$ -	11	11
Total additions	-	11	11
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	200	150	350
Change in net position	(200)	(139)	(339)
Net position beginning of year	796	2,283	3,079
Net position end of year	\$ 596	2,144	2,740

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE LAST TEN YEARS**

	Modified Accrual Basis									
	Years Ended June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Local sources:										
Local tax	\$ 4,308,175	4,336,802	4,667,487	4,255,347	4,116,317	3,677,072	3,515,639	3,313,037	3,314,347	3,431,676
Tuition	89,172	108,051	128,396	119,376	136,813	88,895	189,657	134,946	136,085	121,513
Other	276,481	328,434	323,657	380,509	355,541	313,059	290,187	327,538	364,765	351,465
State sources	4,171,265	3,912,075	3,280,752	3,198,672	2,819,523	2,427,427	3,143,667	3,231,147	3,010,114	2,958,051
Federal sources	227,334	208,401	236,602	305,932	374,179	691,602	299,451	287,977	447,641	313,666
Total	\$ 9,072,427	8,893,763	8,636,894	8,259,836	7,802,373	7,198,055	7,438,601	7,294,645	7,272,952	7,176,371
Expenditures:										
Instruction:										
Regular	\$ 2,922,098	3,233,702	2,976,981	2,882,991	2,945,990	2,700,442	2,690,017	2,600,693	2,513,470	2,338,534
Special	1,213,792	1,115,494	1,109,602	1,003,511	944,430	904,458	925,227	916,288	922,488	914,675
Other	1,218,253	1,147,970	1,131,324	1,054,456	964,281	965,102	801,530	771,990	733,738	788,699
Support services:										
Student	103,528	112,309	113,231	108,247	149,953	165,072	166,623	156,887	158,246	262,464
Instructional staff	351,976	355,700	385,504	358,131	399,792	306,553	299,587	253,012	239,722	312,508
Administration	844,142	749,194	776,107	715,865	720,458	738,082	702,128	685,071	679,553	672,739
Operation and maintenance of plant	659,519	717,882	616,763	581,636	511,302	466,013	540,827	503,439	543,007	586,845
Transportation	476,365	470,668	445,779	361,939	325,076	381,294	311,771	426,176	427,034	349,115
Capital outlay	254,202	274,144	213,859	383,197	261,095	197,671	138,576	339,141	163,257	2,556,606
Long-term debt:										
Principal	-	-	635,000	395,000	385,000	365,000	366,449	356,454	346,454	331,454
Interest and fiscal charges	-	-	28,056	41,490	56,491	67,442	72,881	90,056	101,181	173,909
Other expenditures:										
AEA flow-through	292,444	277,020	265,903	250,710	278,142	276,664	257,835	252,401	244,936	239,076
Total	\$ 8,336,319	8,454,083	8,698,109	8,137,173	7,942,010	7,533,793	7,273,451	7,351,608	7,073,086	9,526,624

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 South O'Brien 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 South O'Brien Community School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered South O'Brien 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 South O'Brien Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of South O'Brien 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-15 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.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether South O'Brien 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, 2015 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.

## **South O'Brien Community School District's Responses to Findings**

South O'Brien Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. South O'Brien 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 South O'Brien 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 10, 2016  
Newton, Iowa

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-15 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. One individual has control over each of the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash, bank reconciliations.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Inventories - ordering, receiving, issuing and storing.
- 5) Wire transfers - processing and approving.
- 6) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 7) Computer systems - performing all general accounting functions and controlling all data input and output.
- 8) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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 continue to monitor the segregation of duties to the best of our ability. The Superintendent and Board President will continue to review some of our financial statements.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-15 Certified Budget - District expenditures for the year ended June 30, 2015, did not exceed the amounts budgeted.

II-B-15 Questionable Disbursements - During our audit we noted that the District gave clothing prizes to participants in volleyball. Giving prizes to students for participation does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - Prizes are not public purpose according to the Attorney General's opinion dated April 25, 1979. The district should implement procedures so that all purchases made by the district meet public purpose and are appropriate purchases of the District.

Response - The District has discontinued the practice of giving clothing prizes to student athletics.

Conclusion - Response accepted.

II-C-15 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.

II-D-15 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Clara Black, Bus Driver Owns O'Brien Country Feed Store	Supplies	\$1,054
Darrell Rehder, School Board Member Works as a Scorekeeper	Supplies	\$237
Rick Weideman, Bus Driver Owns Weidaman's True Value Hardware	Supplies	\$6,620
Kiley Yates, Teacher Business owner	Apparel	\$3,509
Mark Fuhrman, Head Football Coach Spouse employed by Darren's Clothing Co.	Supplies	\$2,078
Michelle Aberson, Teacher Spouse owns Paullina Chiropractic	Services	\$300
Kris Fanst, Teacher Spouse owns South O'Brien Insurance Co.	Insurance	\$4,767
Rebecca Puhmann, Para Educator Spouse owns Puhmann Excavating	Services	\$2,093
Emily Wassom, Assistant Volleyball Coach Parent supplied food for Volleyball party	Supplies	\$150

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Clara Black, Rick Weideman, and Kiley Yates do not appear to represent a conflict of interest.

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

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with Board Member Darrell Rehder does not appear to be a conflict of interest.

II-E-15 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-15 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we did note during the audit that the minutes for the Board meeting held of January 29, 2015 was not published within the allotted time in accordance with Chapter 279.35-36 of the Code of Iowa.

Recommendation - Board minutes must be published in one newspaper with the district within two weeks of meeting adjournment. The district should implement procedures to insure that board minutes are being published in accordance with Chapter 279.35-36 of the Code of Iowa.

Response - The January 29, 2015 special meeting minutes were submitted for publication in accordance with Chapter 279.35-36 of the Code of Iowa. The Paullina Times did not publish said minutes until February 19, 2015.

Conclusion - Response accepted.

II-G-15 Certified Enrollment - We noted variances in the basic enrollment data certified to the Iowa Department of Education. The number of resident students was overstated by 0.44 students.

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

Response - Our auditors will be contacting the Iowa Department of Education and the Department of Management to resolve this matter.

Conclusion - Response accepted.

II-H-15 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-15 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-15 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-15 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-15 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales and 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, 2015, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$	614,835
Revenues:			
Sales tax revenues	\$	638,886	
Other local revenues		3,937	642,823
			<u>1,257,658</u>
Expenditures/transfers out:			
School infrastructure construction		75,175	
Equipment		80,335	
Other		86,494	242,004
			<u>242,004</u>
Ending balance		\$	<u>1,015,654</u>

For the year ended June 30, 2015 the District did not reduce any levies as a result of the moneys received under Chapter 423E and 423F of the Code of Iowa.

II-M-15 Financial Condition - The District had a deficit unrestricted net position in the district's Nutrition Fund of \$2,457 and deficit unrestricted net position of Governmental Activities of \$2,034,038 at June 30, 2015. During the year ended June 30, 2015 the District had two accounts with a total deficit unassigned balance of \$1,112 in the Student Activity Fund.

Recommendation - The District should take steps to ensure that District's administration and Board of Education understand this accounting change/restatement and how GASB Statements No. 68 and 71 will affect the District's financial moving forward.

Response - The District's administration and Board of Education will gain more understanding of GASB Statements No. 68 and 71.

Conclusion - Response accepted.

II-N-15 Operating Lease Contract - We noted an operating lease with Advance System, Inc. that was signed by the Superintendent. Chapter 291.1 of the Code of Iowa requires all contracts entered into by the District to be signed by the Board President.

Recommendation - The District should have the Board President sign all contracts entered into by the District in compliance with Chapter 291.1 of the Code of Iowa.

Response - The Board President will sign all contracts.

Conclusion - Response accepted.

II-O-15 Credit Card - We noted reimbursements to employees for items purchased with personal credit cards for the full purchase price, including sales tax. As the District is a tax-exempt entity, reimbursements for sales tax would not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review their procedures in place, and make necessary adjustments to comply with the Attorney General's opinion dated April 25, 1979.

Response - Sales tax will be subtracted from future reimbursements owed to employees paid with their personal credit cards.

Conclusion - Response accepted.