

ESSEX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Essex Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Blake Jensen	President	2011
Doug Ohnmacht	Vice President	2011
Tim Johnson	Board Member	2013
Dennis Liljedahl	Board Member	2013
Christy Johnson	Board Member	2011
<b>School Officials</b>		
Ron Flynn	Superintendent	2011
Sherri Ruzek	Business Manager	2011
Kay Schaefer	Board Secretary	2011
Ahlers & Cooney, P.C.	Attorney	2011

ESSEX COMMUNITY SCHOOL DISTRICT

# NOTLE, 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  
Essex Community School District:

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 Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our 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 Essex Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2012 on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information

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required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2010 (which are not presented here in) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2012

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

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Essex 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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$2,512,748 in fiscal year 2010 to \$2,601,173 in fiscal year 2011, while General Fund expenditures decreased from \$2,592,680 in fiscal 2010 to \$2,537,103 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$429,200 in fiscal 2010 to \$493,270 in fiscal 2011, a 14.93% increase from prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources of revenue in fiscal 2011. The decrease in expenditures was due in part to a decrease in transfers out.
- Overall, the District's net assets in the governmental activities increased by \$99,695 and increased in the business type activities by \$2,735.

### **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 Assets and a Statement of Activities. These provide information about the activities of Essex 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 Essex 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 Essex Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

**Figure A-1**  
**Essex Community School District Annual Financial Report**

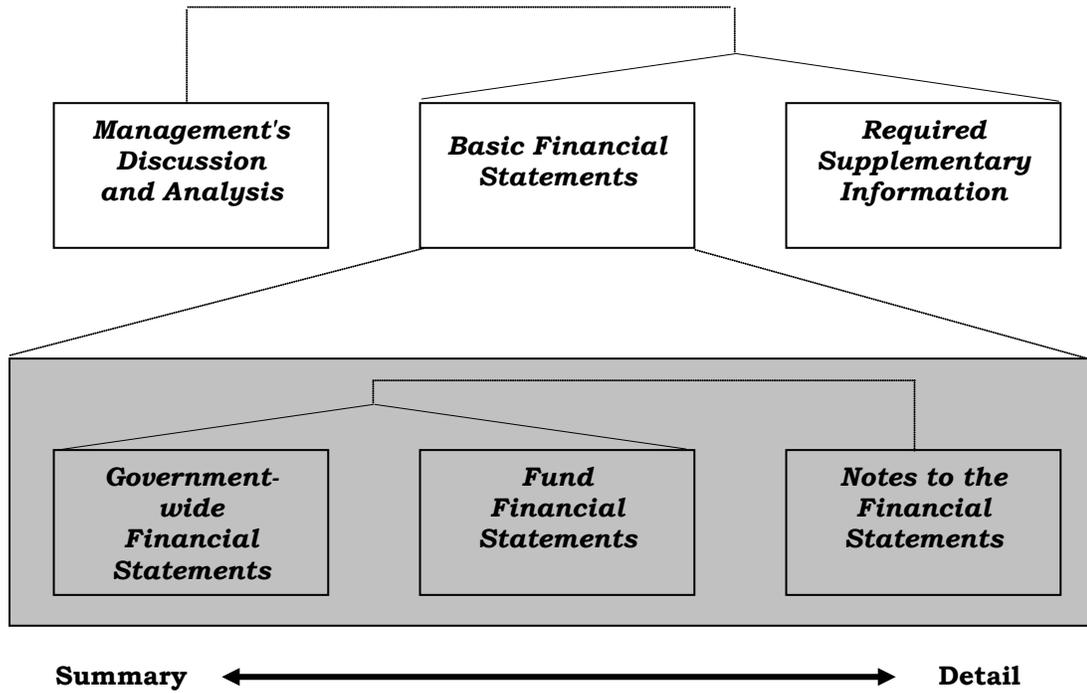


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

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

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are

one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets 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 is included here.

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and 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 Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets 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 and Agency funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-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 assets and a statement of changes in fiduciary net assets.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3 Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 2,175,496	2,020,034	7,081	1,800	2,182,577	2,021,834	7.95%
Capital assets	1,727,831	1,730,488	4,396	6,502	1,732,227	1,736,990	-0.27%
Total assets	<u>3,903,327</u>	<u>3,750,522</u>	<u>11,477</u>	<u>8,302</u>	<u>3,914,804</u>	<u>3,758,824</u>	<u>4.15%</u>
Long-term obligations	421,234	420,653	-	-	421,234	420,653	0.14%
Other liabilities	1,284,363	1,231,834	1,347	907	1,285,710	1,232,741	4.30%
Total liabilities	<u>1,705,597</u>	<u>1,652,487</u>	<u>1,347</u>	<u>907</u>	<u>1,706,944</u>	<u>1,653,394</u>	<u>3.24%</u>
Net assets:							
Invested in capital assets, net of related debt	1,477,831	1,480,488	4,396	6,502	1,482,227	1,486,990	-0.32%
Restricted	292,206	222,967	-	-	292,206	222,967	31.05%
Unrestricted	427,693	394,580	5,734	893	433,427	395,473	9.60%
Total net assets	<u>\$ 2,197,730</u>	<u>2,098,035</u>	<u>10,130</u>	<u>7,395</u>	<u>2,207,860</u>	<u>2,105,430</u>	<u>4.87%</u>

The District's combined net assets increased by 4.87%, or \$102,430 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, 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 assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 31.05%, or \$69,239 compared to prior year. The increase in restricted net assets is primarily the result of the increase in the Capital Project Accounts balance.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased 9.60%, or \$37,954 from the prior year. The increase in unrestricted net assets is primarily the result of the increase in fund balance for the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to June 30, 2010.

	Figure A-4						
	Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 351,084	255,078	55,985	58,151	407,069	313,229	29.96%
Operating grants, contributions and restricted interest	242,650	520,097	50,043	48,231	292,693	568,328	-48.50%
Capital grants, contributions and restricted interest	25,000	1,704	-	-	25,000	1,704	1367.14%
General revenues:							
Property tax	957,016	914,623	-	-	957,016	914,623	4.64%
Income surtax	74,553	132,474	-	-	74,553	132,474	-43.72%
Statewide sales, services and use tax	168,814	143,236	-	-	168,814	143,236	17.86%
Unrestricted state grants	1,048,845	742,836	-	-	1,048,845	742,836	41.19%
Nonspecific program federal grants	71,678	-	-	-	71,678	-	100.00%
Unrestricted investment earnings	1,144	3,300	6	7	1,150	3,307	-65.23%
Other general revenues	35,125	13,129	2,722	1,677	37,847	14,806	155.62%
Transfers	(8,800)	(3,300)	8,800	3,300	-	-	0.00%
Total revenues and transfers	<u>2,967,109</u>	<u>2,723,177</u>	<u>117,556</u>	<u>111,366</u>	<u>3,084,665</u>	<u>2,834,543</u>	<u>8.82%</u>
Program expenses:							
Governmental activities:							
Instructional	1,790,571	1,866,186	-	-	1,790,571	1,866,186	-4.05%
Support services	918,260	836,016	-	-	918,260	836,016	9.84%
Non-instructional programs	-	-	114,821	115,017	114,821	115,017	-0.17%
Other expenses	158,583	204,406	-	-	158,583	204,406	-22.42%
Total expenses	<u>2,867,414</u>	<u>2,906,608</u>	<u>114,821</u>	<u>115,017</u>	<u>2,982,235</u>	<u>3,021,625</u>	<u>-1.30%</u>
Change in net assets	99,695	(183,431)	2,735	(3,651)	102,430	(187,082)	154.75%
Net assets beginning of year	<u>2,098,035</u>	<u>2,281,466</u>	<u>7,395</u>	<u>11,046</u>	<u>2,105,430</u>	<u>2,292,512</u>	<u>-8.16%</u>
Net assets end of year	<u>\$ 2,197,730</u>	<u>2,098,035</u>	<u>10,130</u>	<u>7,395</u>	<u>2,207,860</u>	<u>2,105,430</u>	<u>4.87%</u>

Property tax, income surtax, statewide sales, services and use tax, unrestricted state grants, and nonspecific program federal grants account for 78.22% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest accounted for 90.19% of business type activities revenue.

The District's total revenues were approximately \$3.08 million, of which approximately \$2.97 million was for governmental activities and approximately \$0.11 million was for business type activities.

As shown in figure A-4, the District as a whole experienced an 8.82% increase in revenues and a 1.30% decrease in expenses.

## Governmental Activities

Revenues for governmental activities were \$2,967,109 and expenses were \$2,867,414.

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, 2011 compared to the year ended June 30, 2010.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 1,790,571	1,866,186	-4.05%	1,328,789	1,191,597	11.51%
Support services	918,260	836,016	9.84%	862,891	836,016	3.21%
Other expenses	158,583	204,406	-22.42%	57,000	102,116	-44.18%
Totals	<u>\$ 2,867,414</u>	<u>2,906,608</u>	<u>-1.35%</u>	<u>2,248,680</u>	<u>2,129,729</u>	<u>5.59%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$351,084.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$267,650.
- The net cost of governmental activities was financed with \$957,016 in property tax, \$74,553 of income surtax, \$168,814 in statewide sales, services and use tax, \$1,048,845 in unrestricted state grants, \$71,678 in nonspecific program federal grants, \$1,144 in interest income and \$26,325 in other revenues net of transfers.

## Business Type Activities

Revenues of the District's business type activities were \$117,556 and expenses were \$114,821. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$797,645; an increase from last year's ending fund balances of \$675,021. The primary reason for the increase in combined fund balances in fiscal 2011 is due to an increase of the fund balance in the General Fund.

## Governmental Fund Highlights

- The District's General Fund balance increased from \$429,200 on June 30, 2010 to \$493,270 on June 30, 2011. The increase in the General Fund balance is primarily due to an increase in local and state revenues coupled with a decrease in fund expenditures as compared to the previous year.

## Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$7,395 at June 30, 2010 to \$10,130 at June 30, 2011.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$34,643 more than budgeted revenues, a variance of 1.13%. The most significant variance resulted from the District receiving more in local and federal 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, 2011, the District had invested \$1.73 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$117,815.

The original cost of the District's capital assets was \$3,516,621. Governmental funds account for \$3,457,161 with the remainder of \$59,460 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$26,025 at June 30, 2010, compared to \$0 reported at June 30, 2011. The decrease was a result of completion of renovations during the year.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 4,812	4,812	-	-	4,812	4,812	0.00%
Construction in progress	-	26,025	-	-	-	26,025	-100.00%
Buildings	1,585,862	1,534,578	-	-	1,585,862	1,534,578	3.34%
Land improvements	12,233	13,144	-	-	12,233	13,144	-6.93%
Machinery and equipment	124,924	151,929	4,396	6,502	129,320	158,431	-18.37%
Total	\$ 1,727,831	1,730,488	4,396	6,502	1,732,227	1,736,990	-0.27%

### Long-Term Debt

At June 30, 2011, the District had \$421,234 in total long-term debt outstanding. This represents an increase of 0.14% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

During the year ended June 30, 2011, the District had outstanding QSCB bonds payable of \$250,000.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$85,467 at June 30, 2011.

During its initial year of recording net OPEB liability in accordance with GASB Statement No. 45, the District disclosed a balance of \$85,767 at June 30, 2011.

Figure A-7			
Outstanding Long-Term Obligations			
	Total		Total
	District		Change
	June 30,		June 30,
	2011	2010	2010-11
QSCB bonds	\$ 250,000	250,000	0.00%
Early retirement	85,467	107,700	-20.64%
Net OPEB liability	85,767	62,953	36.24%
Totals	<u>\$ 421,234</u>	<u>420,653</u>	<u>0.14%</u>

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

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

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- On July 1, 2011, the IPERS increase to 8.07% will increase the Essex Community Schools employer benefits costs during fiscal 2012. An additional increase to 8.67% is anticipated for the fiscal year 2013.

## **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 Sherri Ruzek, Business Manager, Essex Community School District, 111 Forbes Street, Essex, Iowa, 51638.

ESSEX COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 971,407	5,404	976,811
Receivables:			
Property tax:			
Delinquent	19,084	-	19,084
Succeeding year	1,020,273	-	1,020,273
Income surtax	93,488	-	93,488
Accounts	1,093	-	1,093
Due from other funds	-	100	100
Due from other governments	70,151	-	70,151
Inventories	-	1,577	1,577
Capital assets, net of accumulated depreciation	1,727,831	4,396	1,732,227
<b>Total assets</b>	<b>3,903,327</b>	<b>11,477</b>	<b>3,914,804</b>
<b>Liabilities</b>			
Accounts payable	44,256	60	44,316
Due to other funds	100	-	100
Salaries and benefits payable	219,734	-	219,734
Deferred revenue:			
Succeeding year property tax	1,020,273	-	1,020,273
Unearned revenue	-	1,287	1,287
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	23,849	-	23,849
Portion due after one year:			
QSCB bonds payable	250,000	-	250,000
Early retirement payable	61,618	-	61,618
Net OPEB liability	85,767	-	85,767
<b>Total liabilities</b>	<b>1,705,597</b>	<b>1,347</b>	<b>1,706,944</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,477,831	4,396	1,482,227
Restricted for:			
Categorical funding	68,016	-	68,016
Student activities	37,639	-	37,639
Debt service	13,780	-	13,780
School infrastructure	157,150	-	157,150
Physical plant and equipment	15,621	-	15,621
Unrestricted	427,693	5,734	433,427
<b>Total net assets</b>	<b>\$ 2,197,730</b>	<b>10,130</b>	<b>2,207,860</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 1,259,379	222,477	48,024	-	(988,878)	-	(988,878)
Special	255,309	20,533	12,636	-	(222,140)	-	(222,140)
Other	275,883	108,074	50,038	-	(117,771)	-	(117,771)
	<u>1,790,571</u>	<u>351,084</u>	<u>110,698</u>	<u>-</u>	<u>(1,328,789)</u>	<u>-</u>	<u>(1,328,789)</u>
Support services:							
Student services	39,337	-	-	-	(39,337)	-	(39,337)
Instructional staff	109,854	-	29,457	-	(80,397)	-	(80,397)
Administration	351,100	-	-	-	(351,100)	-	(351,100)
Operation and maintenance of plant	278,486	-	-	25,000	(253,486)	-	(253,486)
Transportation	139,483	-	912	-	(138,571)	-	(138,571)
	<u>918,260</u>	<u>-</u>	<u>30,369</u>	<u>25,000</u>	<u>(862,891)</u>	<u>-</u>	<u>(862,891)</u>
Other expenditures:							
AEA flowthrough	101,583	-	101,583	-	-	-	-
Depreciation(unallocated)*	57,000	-	-	-	(57,000)	-	(57,000)
	<u>158,583</u>	<u>-</u>	<u>101,583</u>	<u>-</u>	<u>(57,000)</u>	<u>-</u>	<u>(57,000)</u>
Total governmental activities	2,867,414	351,084	242,650	25,000	(2,248,680)	-	(2,248,680)
Business Type activities:							
Non-instructional programs:							
Nutrition services	114,821	55,985	50,043	-	-	(8,793)	(8,793)
Total	\$ 2,982,235	407,069	292,693	25,000	(2,248,680)	(8,793)	(2,257,473)
<b>General Revenues and Transfers:</b>							
General revenues:							
Property tax for:							
General purposes					\$ 934,670	-	934,670
Capital outlay					22,346	-	22,346
Income surtax					74,553	-	74,553
Statewide sales, services and use tax					168,814	-	168,814
Unrestricted state grants					1,048,845	-	1,048,845
Nonspecific program federal grants					71,678	-	71,678
Unrestricted investment earnings					1,144	6	1,150
Other general revenues					35,125	2,722	37,847
Transfers					(8,800)	8,800	-
Total general revenues and transfers					<u>2,348,375</u>	<u>11,528</u>	<u>2,359,903</u>
Changes in net assets					99,695	2,735	102,430
Net assets beginning of year					<u>2,098,035</u>	<u>7,395</u>	<u>2,105,430</u>
Net assets end of year					<u>\$ 2,197,730</u>	<u>10,130</u>	<u>2,207,860</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General	Other Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and pooled investments	\$ 714,563	256,844	971,407
Receivables:			
Property tax			
Delinquent	17,244	1,840	19,084
Succeeding year	932,036	88,237	1,020,273
Income surtax	93,488	-	93,488
Accounts	1,093	-	1,093
Due from other governments	24,285	45,866	70,151
<b>Total assets</b>	<b>\$ 1,782,709</b>	<b>392,787</b>	<b>2,175,496</b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 44,181	75	44,256
Due to other funds	-	100	100
Salaries and benefits payable	219,734	-	219,734
Deferred revenue:			
Succeeding year property tax	932,036	88,237	1,020,273
Income surtax	93,488	-	93,488
<b>Total liabilities</b>	<b>1,289,439</b>	<b>88,412</b>	<b>1,377,851</b>
<b>Fund balances:</b>			
<b>Restricted for:</b>			
Categorical funding	68,016	-	68,016
Management levy purposes	-	80,362	80,362
Student activities	-	37,639	37,639
Debt service	-	13,780	13,780
School infrastructure	-	157,150	157,150
Physical plant and equipment	-	15,621	15,621
Assigned	3,807	-	3,807
<b>Unassigned:</b>			
General	421,447	-	421,447
Student activities	-	(177)	(177)
<b>Total fund balances</b>	<b>493,270</b>	<b>304,375</b>	<b>797,645</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,782,709</b>	<b>392,787</b>	<b>2,175,496</b>

SEE NOTES TO FINANCIAL STATEMENTS.



ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	General	Other Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 958,817	261,257	1,220,074
Tuition	190,737	-	190,737
Other	90,066	112,170	202,236
State sources	1,180,368	-	1,180,368
Federal sources	177,185	25,000	202,185
Total revenues	<u>2,597,173</u>	<u>398,427</u>	<u>2,995,600</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,212,436	40,948	1,253,384
Special	253,096	-	253,096
Other	173,430	105,987	279,417
	<u>1,638,962</u>	<u>146,935</u>	<u>1,785,897</u>
Support services:			
Student	39,006	-	39,006
Instructional staff	112,915	-	112,915
Administration	347,348	6,129	353,477
Operation and maintenance of plant	179,150	20,764	199,914
Transportation	109,339	4,443	113,782
	<u>787,758</u>	<u>31,336</u>	<u>819,094</u>
Other expenditures:			
Facilities acquisitions	-	161,552	161,552
Long-term debt:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
AEA flowthrough	101,583	-	101,583
	<u>101,583</u>	<u>161,552</u>	<u>263,135</u>
Total expenditures	<u>2,528,303</u>	<u>339,823</u>	<u>2,868,126</u>
Excess of revenues over expenditures	68,870	58,604	127,474
Other financing sources(uses):			
QSCB bonds issued	-	-	-
Issuance cost of bonds	-	-	-
Transfer in	50	13,442	13,492
Transfer out	(8,800)	(13,492)	(22,292)
Insurance proceeds	3,950	-	3,950
Total other financing sources(uses)	<u>(4,800)</u>	<u>(50)</u>	<u>(4,850)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX 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, 2011

Net change in fund balances - total governmental funds(page 22) \$ 122,624

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

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

Depreciation expense	\$ (115,709)	
Capital outlay expenditures	113,799	
Loss on disposal	(747)	(2,657)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (19,691)

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.

Early Retirement	22,233	
Other postemployment benefits	(22,814)	(581)

Changes in net assets of governmental activities(page 19) \$ 99,695

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	<u>School</u>
	<u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 5,404
Due from other funds	100
Inventories	1,577
Capital assets, net of accumulated depreciation	<u>4,396</u>
Total assets	<u>11,477</u>
Liabilities	
Accounts payable	60
Unearned revenue	<u>1,287</u>
Total liabilities	<u>1,347</u>
Net assets	
Invested in capital assets	4,396
Unrestricted	<u>5,734</u>
Total net assets	<u>\$ 10,130</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 55,985
Miscellaneous	2,722
Total operating revenues	58,707
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	39,984
Benefits	5,887
Services	1,672
Supplies	64,922
Depreciation	2,106
Other	250
Total operating expenses	114,821
Operating loss	(56,114)
Non-operating revenues:	
State sources	1,034
Federal sources	49,009
Interest income	6
Total non-operating revenues	50,049
Net loss before other financing sources	(6,065)
Other financing sources:	
Transfer In	8,800
Decrease in net assets	2,735
Net assets beginning of year	7,395
Net assets end of year	\$ 10,130

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 56,850
Cash received from miscellaneous operating activities	2,722
Cash payments to employees for services	(45,871)
Cash payments to suppliers for goods or services	(60,993)
Net cash used by operating activities	(47,292)
Cash flows from non-capital financing activities:	
Decrease in interfund borrowing	(100)
Net transfer from General Fund	8,800
State grants received	1,034
Federal grants received	42,391
Net cash provided by non-capital financing activities	52,125
Cash flows from investing activities:	
Interest on investments	6
Net increase in cash and cash equivalents	4,839
Cash and cash equivalents at beginning of year	565
Cash and cash equivalents at end of year	\$ 5,404
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (56,114)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities consumed	6,618
Depreciation	2,106
Increase in inventories	(827)
Decrease in accounts receivable	485
Increase in accounts payable	60
Increase in unearned revenue	380
Net cash used by operating activities	\$ (47,292)

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2011, the District received \$6,618 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2011

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
Assets		
Cash and pooled investments	\$ 47,028	1,764
Liabilities		
Due to other groups	-	1,764
Net assets		
Restricted for scholarships	20,000	-
Unrestricted	27,028	-
	<u>\$ 47,028</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Scholarship
Additions	
Local sources:	
Interest income	\$ 543
Deductions	
Instruction:	
Scholarships awarded	3,150
Change in net assets	(2,607)
Net assets beginning of year	49,635
Net assets end of year	\$ 47,028

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of 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 support.

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

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

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental fund:

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 District reports the following non-major proprietary fund:

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. 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.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1% per month penalty for delinquent payments; is based on

January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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 Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	1,000
Land improvements	1,000
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Intangibles	2 or more years
Machinery and equipment	5-20 years

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

Deferred Revenue - 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 revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized

since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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 Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

Assigned - Amounts the Board intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of

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

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$507,084 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 13,442
School Nutrition	General	8,800
General	Management Levy	50
Total		<u>\$ 22,292</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund for moneys that are being deposited in the escrow account to pay the indebtedness of the Qualified School Construction Bonds.

The transfer from the General Fund to the Nutrition Fund was for deficit relief.

The transfer from the Management Levy Fund to the General Fund was for an insurance deductible.

**(4) Due From and Due To Other Funds**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
School Nutrition	Capital Projects: Statewide Sales, Services and Use Tax	\$ <u>100</u>

The Capital Projects: Statewide Sales, Services and Use Tax Fund is repaying the School Nutrition Fund for a state payment that was incorrectly deposited into Capital Projects: Statewide Sales, Services, and Use Tax Fund bank account.

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 4,812	-	-	4,812
Construction in progress	26,025	47,770	73,795	-
Total capital assets not being depreciated	<u>30,837</u>	<u>47,770</u>	<u>73,795</u>	<u>4,812</u>
Capital assets being depreciated:				
Buildings	2,658,307	108,120	2,010	2,764,417
Land improvements	162,885	-	24,085	138,800
Machinery and equipment	712,579	31,704	195,151	549,132
Total capital assets being depreciated	<u>3,533,771</u>	<u>139,824</u>	<u>221,246</u>	<u>3,452,349</u>
Less accumulated depreciation for:				
Buildings	1,123,729	56,089	1,263	1,178,555
Land improvements	149,741	911	24,085	126,567
Machinery and equipment	560,650	58,709	195,151	424,208
Total accumulated depreciation	<u>1,834,120</u>	<u>115,709</u>	<u>220,499</u>	<u>1,729,330</u>
Total capital assets being depreciated, net	<u>1,699,651</u>	<u>24,115</u>	<u>747</u>	<u>1,723,019</u>
Governmental activities capital assets, net	<u>\$ 1,730,488</u>	<u>71,885</u>	<u>74,542</u>	<u>1,727,831</u>
<b>Business type activities:</b>				
Machinery and equipment	\$ 59,460	-	-	59,460
Less accumulated depreciation	52,958	2,106	-	55,064
Business type activities capital assets, net	<u>\$ 6,502</u>	<u>(2,106)</u>	<u>-</u>	<u>4,396</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 24,771
Other	2,688
Support services:	
Instructional staff	4,042
Administration	409
Operation and maintenance of plant	1,100
Transportation	25,699
	<u>58,709</u>
Unallocated depreciation	<u>57,000</u>
Total governmental activities depreciation expense	<u>\$ 115,709</u>
Business type activities:	
Food services	<u>\$ 2,106</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Balance		Balance		Due
	Beginning		End of		Within
QSCB bonds	\$ 250,000	-	-	250,000	-
Early retirement	107,700	-	22,233	85,467	23,849
Net OPEB liability	62,953	22,814	-	85,767	-
Total	\$ 420,653	22,814	22,233	421,234	23,849

Qualified School Construction Bonds

During the year ended June 30, 2010, the District issued zero interest Qualified School Construction Bonds (QSCB). The District makes annual transfers of \$13,442 from Capital Projects: Statewide Sales, Services and Use Tax Fund to an escrow account at Farmers Savings Bank in Essex. The escrow account earns 3.00% interest and the proceeds in the escrow account on September 1, 2024 should be sufficient to repay \$250,000.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-five years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2011, totaled \$22,233. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$99,903, \$94,154, and \$92,780 respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits(OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 23 active and 4 retired members in the plan. Participants must be age 55 or older at age of retirement.

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 70,836
Interest on net OPEB obligation	1,574
Adjustment to annual required contribution	(5,178)
Annual OPEB cost	<u>67,232</u>
Contributions made	<u>(44,418)</u>
Increase in net OPEB obligation	22,814
Net OPEB obligation beginning of year	<u>62,953</u>
Net OPEB obligation end of year	<u><u>\$ 85,767</u></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, 2011.

For the year ended June 30, 2011, the District contributed \$44,418 to the medical plan. Retired members eligible for the plan contributed \$57,566 or 56.47% of the premium costs.

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, 2011 are summarized as follows:

For Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$66,826	5.80%	\$62,953
2011	\$67,232	66.07%	\$85,767

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$490,695, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$490,695. The covered payroll (annual payroll of active employees covered by

the plan) was approximately \$1,208,653 and the ratio of the UAAL to covered payroll was 40.60%. As of June 30, 2011, 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. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits 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 the July 1, 2009 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 health cost trend is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$610 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

#### **(9) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2011 were \$270,014.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District

assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

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 \$101,583 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(11) Categorical Funding**

The District's ending restricted balance for categorical funding at June 30, 2011 is comprised of the following programs:

Programs	Amount
Returning Dropouts and Dropout Prevention Programs	\$ 38,488
Beginning Teacher Mentoring and Induction Program	1,086
Gifted and Talented	4,752
Market Factor	780
Professional Development for Model Core Curriculum	9,828
Professional Development	13,082
	\$ 68,016
Total	\$ 68,016

**(12) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ 128,642	10,212
Change in fund type classification per implementation of GASB Statement No. 54	10,212	(10,212)
Balances July 1, 2010, as restated	\$ 138,854	-

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,613,047	58,713	1,671,760	1,580,430	1,580,430	91,330
Intermediate sources	-	-	-	2,000	2,000	(2,000)
State sources	1,180,368	1,034	1,181,402	1,313,996	1,313,996	(132,594)
Federal sources	202,185	49,009	251,194	173,287	173,287	77,907
Total revenues	<u>2,995,600</u>	<u>108,756</u>	<u>3,104,356</u>	<u>3,069,713</u>	<u>3,069,713</u>	<u>34,643</u>
Expenditures/Expenses:						
Instruction	1,785,897	-	1,785,897	2,032,804	2,032,804	246,907
Support services	819,094	-	819,094	1,056,392	1,056,392	237,298
Non-instructional programs	-	114,821	114,821	138,241	138,241	23,420
Other expenditures	263,135	-	263,135	413,697	413,697	150,562
Total expenditures/expenses	<u>2,868,126</u>	<u>114,821</u>	<u>2,982,947</u>	<u>3,641,134</u>	<u>3,641,134</u>	<u>658,187</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	127,474	(6,065)	121,409	(571,421)	(571,421)	692,830
Other financing sources, net	(4,850)	8,800	3,950	10,000	10,000	(6,050)
Excess(Deficiency) of revenues and other financing sources over (under) expenditures/expenses	122,624	2,735	125,359	(561,421)	(561,421)	686,780
Balance beginning of year	675,021	7,395	682,416	561,421	561,421	120,995
Balance end of year	<u>\$ 797,645</u>	<u>10,130</u>	<u>807,775</u>	<u>-</u>	<u>-</u>	<u>807,775</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS FOR THE  
 RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	-	\$ 490,695	490,695	0.00%	\$ 1,195,497	41.05%
2011	July 1, 2009	-	490,695	490,695	0.00%	1,208,653	40.60%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue					Total Other Nonmajor Governmental Funds
	Management Levy	Student Activity	Total	Capital Projects	Debt Service	
<b>Assets</b>						
Cash and pooled investments	\$ 78,964	37,537	116,501	126,563	13,780	256,844
Receivables:						
Property tax:						
Delinquent	1,398	-	1,398	442	-	1,840
Succeeding year	65,000	-	65,000	23,237	-	88,237
Due from other governments	-	-	-	45,866	-	45,866
<b>Total assets</b>	<b>\$ 145,362</b>	<b>37,537</b>	<b>182,899</b>	<b>196,108</b>	<b>13,780</b>	<b>392,787</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	75	75	-	-	75
Due to other funds	-	-	-	100	-	100
Deferred revenue:						
Succeeding year property tax	65,000	-	65,000	23,237	-	88,237
<b>Total liabilities</b>	<b>65,000</b>	<b>75</b>	<b>65,075</b>	<b>23,337</b>	<b>-</b>	<b>88,412</b>
<b>Fund balances:</b>						
<b>Restricted for:</b>						
Management levy purposes	80,362	-	80,362	-	-	80,362
Student activity	-	37,639	37,639	-	-	37,639
Debt service	-	-	-	-	13,780	13,780
School infrastructure	-	-	-	157,150	-	157,150
Physical plant and equipment	-	-	-	15,621	-	15,621
Unassigned	-	(177)	(177)	-	-	(177)
<b>Total fund balances</b>	<b>80,362</b>	<b>37,462</b>	<b>117,824</b>	<b>172,771</b>	<b>13,780</b>	<b>304,375</b>
<b>Total liabilities and fund balances</b>	<b>\$ 145,362</b>	<b>37,537</b>	<b>182,899</b>	<b>196,108</b>	<b>13,780</b>	<b>392,787</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2011

	Special Revenue					Total
	Management Levy	Student Activity	Total	Capital Projects	Debt Service	Other Nonmajor Government Funds
Revenues:						
Local sources:						
Local tax	\$ 70,097	-	70,097	191,160	-	261,257
Other	3,862	107,919	111,781	51	338	112,170
State sources	-	-	-	-	-	-
Federal sources	-	-	-	25,000	-	25,000
Total revenues	73,959	107,919	181,878	216,211	338	398,427
Expenditures:						
Current:						
Instruction:						
Regular	40,948	-	40,948	-	-	40,948
Other	-	105,987	105,987	-	-	105,987
Support services:						
Administration	6,129	-	6,129	-	-	6,129
Operation and maintenance of plant	13,464	-	13,464	7,300	-	20,764
Transportation	4,443	-	4,443	-	-	4,443
Other expenditures:						
Facilities acquisitions	-	-	-	161,552	-	161,552
Total expenditures	64,984	105,987	170,971	168,852	-	339,823
Excess of revenues over expenditures	8,975	1,932	10,907	47,359	338	58,604
Other financing sources(uses):						
Transfer in	-	-	-	-	13,442	13,442
Transfer out	(50)	-	(50)	(13,442)	-	(13,492)
Total other financing sources(uses)	(50)	-	(50)	(13,442)	13,442	(50)
Net change in fund balances	8,925	1,932	10,857	33,917	13,780	58,554
Fund balances beginning of year, as restated	71,437	35,530	106,967	138,854	-	245,821
Fund balances end of year	\$ 80,362	37,462	117,824	172,771	13,780	304,375

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant & Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 111,384	15,179	126,563
Receivables:			
Property tax:			
Delinquent	-	442	442
Succeeding year	-	23,237	23,237
Due from other governments	45,866	-	45,866
<b>Total assets</b>	<b>\$ 157,250</b>	<b>38,858</b>	<b>196,108</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Due to other funds	\$ 100	-	100
Deferred revenue:			
Succeeding year property tax	-	23,237	23,237
<b>Total liabilities</b>	<b>100</b>	<b>23,237</b>	<b>23,337</b>
<b>Fund balances:</b>			
Restricted for:			
School infrastructure	157,150	-	157,150
Physical plant and equipment	-	15,621	15,621
<b>Total fund balances</b>	<b>157,150</b>	<b>15,621</b>	<b>172,771</b>
<b>Total liabilities and fund balances</b>	<b>\$ 157,250</b>	<b>38,858</b>	<b>196,108</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 168,814	22,346	191,160
Other	51	-	51
Federal sources	-	25,000	25,000
Total revenues	168,865	47,346	216,211
Expenditures:			
Current:			
Support services:			
Operation and maintenance of plant	-	7,300	7,300
Other expenditures:			
Facilities acquisitions	126,915	34,637	161,552
Total expenditures	126,915	41,937	168,852
Excess of revenues over expenditures	41,950	5,409	47,359
Other financing uses:			
Transfer out	(13,442)	-	(13,442)
Net change in fund balances	28,508	5,409	33,917
Fund balances beginning of year, as restated	128,642	10,212	138,854
Fund balances end of year	\$ 157,150	15,621	172,771

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ -	-	121	(121)
Drama	3,443	586	828	3,201
Instrumental music	180	928	1,164	(56)
Athletics	5,301	38,887	41,477	2,711
JH VB tournament	1,305	1,813	3,034	84
Football fund	385	3,712	3,461	636
HS basketball	303	-	241	62
Softball girls	93	1,111	712	492
Elementary can drive	18	-	-	18
Class of 2009	440	-	440	-
Class of 2010	1,036	-	403	633
Class of 2011	4,032	11,182	14,085	1,129
Class of 2012	286	12,491	11,257	1,520
Class of 2013	48	29	46	31
Class of 2014	145	210	50	305
Class of 2015	7	195	126	76
Class of 2016	-	50	33	17
Elementary Playground Equipment	6,396	6,630	7,188	5,838
School mall fund	-	14,295	10,344	3,951
Pep club	1,384	1,202	2,089	497
E-Stars	1,987	939	1,819	1,107
GAB fund	-	300	210	90
Safety patrol	17	-	-	17
Claire McKinney music fund	416	-	-	416
Annual	2,538	8,134	2,950	7,722
Elementary	537	67	192	412
Industrial arts	1,949	753	422	2,280
Media center	673	-	-	673
Special projects	162	236	287	111
National honor society	1	110	-	111
Project class	123	-	-	123
Student council	2,325	4,059	3,008	3,376
<b>Total</b>	<b>\$ 35,530</b>	<b>107,919</b>	<b>105,987</b>	<b>37,462</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2011

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Assets						
Cash and pooled investments	\$ 990	21,711	19,735	4,208	384	47,028
Liabilities	-	-	-	-	-	-
Net Assets						
Restricted for scholarships	-	20,000	-	-	-	20,000
Unrestricted	990	1,711	19,735	4,208	384	27,028
	\$ 990	21,711	19,735	4,208	384	47,028

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2011

	Claire McKinney Trust	Saunder Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:						
Interest	\$ -	242	241	60	-	543
Deductions:						
Scholarships	-	500	1,350	1,000	300	3,150
Change in net assets	-	(258)	(1,109)	(940)	(300)	(2,607)
Net assets beginning of year	990	21,969	20,844	5,148	684	49,635
Net assets end of year	\$ 990	21,711	19,735	4,208	384	47,028

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2011

	Beginning Balance	Increases	Decreases	Ending Balance
<b>JUST HELP KIDS</b>				
Assets:				
Cash and other investments	\$ 702	250	-	952
Liabilities:				
Due to other groups	\$ 702	250	-	952
<b>NURSE FUND</b>				
Assets:				
Cash and other investments	\$ 855	1,631	1,674	812
Liabilities:				
Due to other groups	\$ 855	1,631	1,674	812
<b>TOTAL</b>				
Cash and other investments	\$ 1,557	1,881	1,674	1,764
Liabilities:				
Due to other groups	\$ 1,557	1,881	1,674	1,764

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 1,220,074	1,182,511	1,161,837	1,055,988	1,082,481	1,088,623	1,059,879	1,162,114
Tuition	190,737	137,499	144,879	172,999	169,071	133,075	121,086	153,736
Other	202,236	139,083	186,817	188,003	216,450	254,312	176,562	143,036
Intermediate sources	-	-	2,000	2,459	-	-	3,174	-
State sources	1,180,368	1,031,916	1,423,390	1,354,443	1,281,715	1,121,983	1,038,057	1,060,391
Federal sources	202,185	227,646	121,276	79,855	88,941	96,413	95,460	108,576
Total	<u>\$ 2,995,600</u>	<u>2,718,655</u>	<u>3,040,199</u>	<u>2,853,747</u>	<u>2,838,658</u>	<u>2,694,406</u>	<u>2,494,218</u>	<u>2,627,853</u>
Expenditures:								
Instruction:								
Regular	\$ 1,253,384	1,238,190	1,422,297	1,360,453	1,189,956	1,117,705	1,094,300	1,023,146
Special	253,096	229,700	218,744	189,187	139,147	134,904	138,480	167,814
Other	279,417	275,431	184,576	186,324	247,660	245,153	212,114	184,216
Support services:								
Student	39,006	68,166	91,984	90,473	82,955	69,713	42,331	24,112
Instructional staff	112,915	52,774	53,447	59,012	86,405	51,631	63,508	34,772
Administration	353,477	369,840	358,304	339,246	340,349	303,500	284,193	253,979
Operation and maintenance of plant	199,914	182,072	195,571	208,738	213,757	184,159	155,805	139,977
Transportation	113,782	106,127	90,669	109,306	114,733	94,646	77,486	97,851
Other expenditures:								
Facilities acquisition	161,552	374,723	196,903	47,542	71,672	154,069	117,703	38,705
Long-term debt:								
Principal	-	-	100,000	160,000	160,000	155,000	170,127	154,251
Interest and other charges	-	-	3,700	8,660	13,140	16,937	21,394	24,215
AEA flowthrough	101,583	100,586	96,514	87,568	84,149	74,390	78,350	73,674
Total	<u>\$ 2,868,126</u>	<u>2,997,609</u>	<u>3,012,709</u>	<u>2,846,509</u>	<u>2,743,923</u>	<u>2,601,807</u>	<u>2,455,791</u>	<u>2,216,712</u>

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  
Essex Community School District:

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 Essex Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Essex Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Essex Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Essex Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be a material weakness and other deficiencies we consider to be a significant deficiency.

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 in internal control described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-11 and I-C-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Essex 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 that 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, 2011 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.

Essex Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Essex Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Essex Community School District and other parties to whom Essex Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Essex 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 26, 2012

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will review internal controls in place, investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-11 Scholarships - We noted during our audit that the District paid the Hamilton Scholarship to a student from funds that were earmarked as nonexpendable by the original donor. According to terms of the original scholarship donation, the District was not to expend the original amounts donated but rather invest that amount in interest bearing investments to award scholarships to students.

Recommendation - Donations received by the District must follow the bequest of the donor. The donor for the Hamilton Scholarship requested that the original amount donated to the District was not to be expended. It would appear that the District is in noncompliance with the bequest of the donor. The District could contact the donor and request that the restriction be lifted. In absence of not having the restriction lifted, the District should be aware of the amount for the scholarship that is expendable and not award a scholarship over that amount.

Response - The donor would not lift the restrictions when asked; because of this, no scholarships will be awarded until the balance is over the unexpended limit.

Conclusion - Response accepted.

I-C-11 Booster Club - We noted during our audit, that the District's Booster Club uses the District's Federal Identification Number. Because the Booster Club is using the District's Federal Identification Number, the District should be accounting for the Booster Club within the District's Activity Fund. The summary of transactions has been included in the Student Activity Fund for the financial statements. The Booster Club's accounts should be included in the District's financial statements and subjected to the same Code of Iowa requirements as well as internal controls that the District follows.

In Iowa, all funds collected through school activities are under the financial control of the District's Board of Education. Proper accounting of all receipts and expenditures in these accounts is the responsibility of the Board of Education and the District's Board Secretary. The District may maintain subsidiary records for student activities, but all

official records of the Student Activity Fund shall be maintained on the District's Uniform Financial Accounting system. If subsidiary records are maintained, these records must be reconciled to the official records monthly.

Recommendation - The District should contact officials of the Booster Club and request the accounts to be turned over to the District. The Booster Club may establish a 501(c)(3) organization, however the current accounts are District assets and should be turned over to the District for proper recording. In addition, the Board of Directors should consider contacting local banks and request listings of accounts utilizing the District's Federal Identification Number. The District should research any unfamiliar accounts and make necessary changes.

Response - The Booster Club has turned over the funds to the school. The funds are being tracked under fund 21 – activity.

Conclusion - Response accepted.

#### OTHER MATTERS:

I-D-11 Commodity Pricing - We noted during our audit of the Enterprise, School Nutrition Fund that the District did not price out the commodity inventory using the correct values provided by the Department of Education, resulting in an understatement of inventory.

Recommendation - The District should review procedures in place for calculation of commodity inventory prices. The State of Iowa provides a price guide listing of values to be used in the calculation. The District should implement procedures to ensure the correct price values are used when calculating the inventory value at year end.

Response - The district will use the correct pricing information in the future.

Conclusion - Response accepted.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

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

- II-A-11 Certified Budget - District disbursements for the year ended June 30, 2011, did not exceed the amount budgeted.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-11 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-11 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-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-11 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-11 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-11 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$	128,642
Revenues:			
Sales tax revenues	\$	168,814	
Other local revenues		51	168,865
			<u>297,507</u>
Expenditures/transfers out:			
School infrastructure construction	\$	68,070	
Equipment		45,463	
Other		13,382	
Transfers to other funds:			
Debt service fund		13,442	140,357
			<u>140,357</u>
Ending Balance		\$	<u>157,150</u>

For the year ended June 30, 2011, the District reduced the following levy as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical plant and equipment levy	<u>\$ 0.33000</u>	<u>\$ 22,316</u>

II-M-11 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

Recommendation - The District needs to determine if the checks need to be voided, reissued or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>.

Response - The checks were reissued and will be submitted to the Treasurer of Iowa if not cashed.

Conclusion - Response accepted.

II-N-11 Financial Condition - We noted during our audit that the Student Activity Fund included two accounts with negative balances totaling \$177.

Recommendation - The District should review the policies and procedures and find alternative methods of eliminating the deficits.

Response - The sponsors were made aware and a plan has been put in place to reduce these negative balances.

Conclusion - Response accepted.

II-O-11 Officiating Contracts - We noted during our audit that the athletic officiating contracts are not maintained. As a result it is undetermined if the contracts were signed by the Board President. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should keep all Officials Contracts and have the Board President sign all contracts entered into by the District to be in compliance with 291.1 of the Code of Iowa.

Response - The District will keep all contracts and have the Board President sign.

Conclusion - Response accepted.

II-P-11 Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the co-curricular and extra-curricular activities offered as a part of the education program for students.

**Questionable Accounts:** There is a School Mall Fund account, Elementary account, Industrial Arts account, Media Center account, Special Projects account, and Playground Equipment Fund account which do not appear to be student run organizations or co-curricular in nature. The School Mall Fund, Elementary, Industrial Arts, and Media Center, and Special Projects accounts appear to be intended as fundraisers for other organizations in the student activity fund. The Playground Equipment account appears to have donations intended for the purchase of new playground equipment for the District. Although, the Class of 2010 had no transactions recorded, it is still being accounted for in the Activity Fund.

Recommendation - The District should review the accounts mentioned above and reclassify/transfer to the appropriate fund in accordance with the guidelines mentioned in 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1). The School Mall Fund, Elementary, Industrial Arts, Media Center, and Special Projects accounts appear to be more appropriately handled in the General Fund. The Playground Equipment account in the Activity Fund would appear to be more appropriately handled in the Capital Projects Accounts or in the General Fund. The Class of 2010 account balance should be reclassified to another activity fund account.

Response - The School Mall and Playground accounts have been moved to Capital Projects: Physical Plant and Equipment Fund. The Elementary, Special Projects, and Industrial Arts accounts were moved to the General Fund. The Media Center Fund was dissolved and the Class of 2010 account has been reclassified.

Conclusion - Response accepted.

II-Q-11 Nutrition Fund Transfers - We noted during our audit transfers from the General Fund to the Nutrition Fund for cash flow purposes. Fees charged by the District and grant reimbursements received should be sufficient to make the Nutrition Fund self-sustaining.

Recommendation - Transfers from the General Fund to the Nutrition Fund should not be done for cash flow purposes. The District should review the Nutrition Fund and determine if fees charged by the District should be increased to make the fund self-sustaining.

Response - The District will not transfer funds from the General Fund to the Nutrition Fund for the purpose of bringing the negative account to zero.

Conclusion - Response accepted.