

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

FINANCIAL REPORT

JUNE 30, 2011

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Address</u>	<u>Term Expires</u>
<u>Board of Education</u>			
Roy Guenther	President	West Union, Iowa	2011
Karen Michelson	Vice President	Fayette, Iowa	2013
Julie Ahrens	Member	Fayette, Iowa	2013
Kathy Wenthold	Member	West Union, Iowa	2013
Carol Weidemann	Member	West Union, Iowa	2013
Randy Tope	Member	West Union, Iowa	2011
Denise Johnson	Member	Alpha, Iowa	2011

School Officials

Duane Willhite – Superintendent
Sue Thoms – District Secretary/Treasurer

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Fayette Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Fayette Community School District's management. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 the North Fayette Community School District as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof 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 November 14, 2011, on our consideration of North Fayette Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and funding progress for the retiree health plan on page 4 and pages 29 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2011

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

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2011**

Management of North Fayette Community School District provides this Management's Discussion and Analysis of North Fayette Community School District's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011.

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

FINANCIAL HIGHLIGHTS

In total, governmental net assets increased by \$549,230. Statewide sales, services and use tax-capital projects fund increased approximately by \$2,824, property taxes levied increased by \$84,889, and state grant revenue increased approximately by \$509,000. District program expenses were 1.79% or approximately \$179,627 less in 2011 than in 2010.

General fund revenues accounted for \$8,713,767 in revenue or 83.8% of all revenues. General fund expenditures accounted for \$8,782,572 in expenditures or 80.9% of all expenditures.

USING THE BASIC FINANCIAL STATEMENTS

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

The statement of net assets and statement of activities provide information about the activities of North Fayette Community School District as a whole and present an overall view of the District's finances and a longer-term view of those finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report North Fayette Community School District's operations in more detail than the District-wide statements by providing information about the most significant funds with all other nonmajor funds presented in total in a single column. For North Fayette Community School District, the general fund, management levy fund and statewide sales, services, and use tax-capital projects fund are the more significant funds.

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

Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other supplementary information provides detailed information about the nonmajor funds.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The District-wide financial statements report information about the District as a whole using accounting methods similar to the accounting used by most private-sector companies. The statement of net 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 statement of net assets presents all of the District's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds

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

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

Proprietary Funds

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

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

DISTRICT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following is a summary perspective of the statement of net assets of the District as a whole. The North Fayette Community School District's net assets at the end of fiscal year 2011 for governmental activities were \$8,091,091 and for business-type activities were \$160,362.

Condensed Statement of Net Assets (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$ 7,069	\$ 7,067	\$ 125	\$ 72	\$ 7,194	\$ 7,139	0.77%
Capital assets	8,644	7,983	56	56	8,700	8,039	8.22%
Total assets	15,713	15,050	181	128	15,894	15,178	4.72%
Long-term debt outstanding	2,406	2,518	-	-	2,406	2,518	-4.45%
Other liabilities	5,221	4,990	20	24	5,241	5,014	4.53%
Total liabilities	7,627	7,508	20	24	7,647	7,532	1.53%
Net assets							
Invested in capital assets, net of related debt	6,776	6,093	56	56	6,832	6,149	11.11%
Restricted	1,291	791	-	-	1,291	791	63.21%
Unrestricted	19	658	105	48	124	706	-82.44%
Total net assets	\$ 8,086	\$ 7,542	\$ 161	\$ 104	\$ 8,247	\$ 7,646	7.86%

The following analysis shows the change in net assets for the year ending June 30, 2011:

Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
Revenues:							
Program revenue							
Charges for service	\$ 602	\$ 559	\$ 241	\$ 244	\$ 843	\$ 803	4.98%
Operating grants	1,623	1,848	221	212	1,844	2,060	-10.49%
General revenue							
Property taxes	3,559	3,474	-	-	3,559	3,474	2.45%
Sales tax and surtax	857	854	-	-	857	854	0.35%
Unrestricted state grants	3,547	3,038	-	-	3,547	3,038	16.75%
Unrestricted investment earnings	4	5	-	-	4	5	-20.00%
Other revenue	185	35	-	-	185	35	428.57%
Total revenues	10,377	9,813	462	456	10,839	10,269	5.55%
Program expenses:							
Instruction	6,374	6,648	-	-	6,374	6,648	-4.12%
Student support	2,609	2,535	-	-	2,609	2,535	2.92%
Non-instructional programs	-	-	405	438	405	438	-7.53%
Other expenses	850	825	-	-	850	825	3.03%
Total expenses	9,833	10,008	405	438	10,238	10,446	2.03%
Increase (decrease) in net assets	544	(195)	57	18	601	(177)	-439.55%
Net assets Beginning of Year	7,542	7,737	104	86	7,646	7,823	-2.26%
Net assets End of Year	\$ 8,086	\$ 7,542	\$ 161	\$ 104	\$ 8,247	\$ 7,646	7.86%

INDIVIDUAL FUND ANALYSIS

As the District completed the year, its governmental funds reported a combined fund balance of \$1,859,327, a \$225,600 decrease from the 2010 fiscal year end balance of \$2,084,927. The District spent \$541,814 more than the prior fiscal year.

- The general fund received less revenue during fiscal year 2011 through federal sources and tuition. The general fund expenditures increased in instructional functional area \$63,233 compared to prior year. Overall expenditures increased by \$124,197. The ending fund balance showed a decrease of \$68,805 to \$568,448.
- The management levy fund increased due to property taxes levied increasing \$44,871 compared to prior year. The ending fund balance showed an increase of \$38,450 to \$518,133.
- The capital projects fund received more revenue during fiscal year 2011 through local option sales tax. The capital projects fund expenditures increased due to the demolition of old middle school building and renovation of the high school and central office. Overall expenditures increased by \$174,328 compared to prior year. The ending fund balance showed a decrease of \$131,884 to \$484,734.

BUDGETARY HIGHLIGHTS

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

The following chart shows the original and amended budget for fiscal 2011 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule					
(Expressed in Thousands)					
	Actual	Budget Amounts		Final	Variance
		Original			
Revenues					
Local sources	\$ 5,462	\$ 5,571		\$ 5,571	\$ (109)
Intermediate sources	-	-		-	-
State sources	4,707	5,134		5,134	(427)
Federal sources	686	538		538	148
Total revenues	\$ 10,855	\$ 11,243		\$ 11,243	\$ (388)
Expenditures					
Instruction	\$ 6,580	\$ 6,675		\$ 6,675	\$ 95
Student support	2,539	3,509		3,509	970
Non-instructional programs	405	500		500	95
Other expenses	1,740	1,049		1,483	(257)
Total expenditures	\$ 11,264	\$ 11,733		\$ 12,167	\$ 903

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, North Fayette Community School District had \$8,644,209 invested in a broad range of capital assets, including buildings, land and equipment for the governmental activities. For the enterprise funds, the District had \$55,648 invested in equipment in the school nutrition fund.

The District's governmental activities had depreciation expense of \$450,539 for fiscal 2011 and total accumulated depreciation of \$7,578,262 as of June 30, 2011. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt

At year-end, the District had approximately \$2,203,000 in bonds and other debt compared to approximately \$2,359,000 last year. More detail is presented in Note 5 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that districts can issue to 5 percent of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt is significantly below this \$18,748,480 limit.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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

- The District has experienced declining enrollment for the past five years and will likely continue to see this trend.
- Further staff reductions including retirements will assist in keeping the District costs down.
- The District will also continue to seek ways to cut transportation and buildings/grounds costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2011

EXHIBIT A

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 2,634,785	\$ 122,507	\$ 2,757,292
Receivables			
Property tax			
Delinquent	109,292		109,292
Succeeding year	3,714,521		3,714,521
Accounts	2,917		2,917
Due from other governments	607,192		607,192
Inventories		2,621	2,621
Capital assets, non-depreciable	128,450		128,450
Capital assets, net of accumulated depreciation	8,515,759	55,648	8,571,407
	<u>\$ 15,712,916</u>	<u>\$ 180,776</u>	<u>\$ 15,893,692</u>
LIABILITIES			
Accounts payable	\$ 146,704	\$ 390	\$ 147,094
Salaries and benefits payable	881,400	15,963	897,363
Accrued interest payable	11,372		11,372
Deferred revenue			
Succeeding year property tax	3,714,521		3,714,521
Other	466,755	4,061	470,816
Long-term liabilities			
Portion due within one year			
Bonds payable	180,000		180,000
Real estate contract	37,806		37,806
Capital leases	44,180		44,180
Early retirement	186,398		186,398
Compensated absences	15,579		15,579
Portion due after one year			
Bonds payable	1,335,000		1,335,000
Real estate contract	126,359		126,359
Capital leases	144,351		144,351
Early retirement	133,190		133,190
Net OPEB liability	203,044		203,044
	<u>7,626,659</u>	<u>20,414</u>	<u>7,647,073</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,776,513	55,648	6,832,161
Restricted for			
Capital projects	484,734		484,734
Management levy purposes	518,133		518,133
Physical plant and equipment	130,457		130,457
Student activities	157,555		157,555
Unrestricted	18,865	104,714	123,579
	<u>8,086,257</u>	<u>160,362</u>	<u>8,246,619</u>
Total net assets	<u>\$ 15,712,916</u>	<u>\$ 180,776</u>	<u>\$ 15,893,692</u>
Total liabilities and net assets	<u>\$ 15,712,916</u>	<u>\$ 180,776</u>	<u>\$ 15,893,692</u>

See Notes to Financial Statements.

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 3,794,386	\$ 169,675	\$ 1,093,829
Special instruction	1,224,310	39,363	15,154
Other instruction	1,355,178	8,190	133,059
	<u>6,373,874</u>	<u>217,228</u>	<u>1,242,042</u>
Support services			
Student services	341,602	374,394	
Instructional staff services	220,761		
Administration services	858,258		
Operation and maintenance plant services	717,463		
Transportation services	470,649	10,614	
	<u>2,608,733</u>	<u>385,008</u>	
Other			
Long-term debt interest	87,156		
Facilities acquisition	7,917		
AEA flowthrough	380,930		380,930
Depreciation (unallocated)	373,712		
	<u>849,715</u>		<u>380,930</u>
Total governmental activities	9,832,322	602,236	1,622,972
Business-type activities			
Non-instructional programs			
Nutrition services	405,331	241,320	220,035
Total	\$ 10,237,653	\$ 843,556	\$ 1,843,007
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Statewide sales, services and use tax			
Unrestricted state grants			
Unrestricted investment earnings			
Loss on sale of equipment			
Other			
Total general revenues			
Change in net assets			
Net assets, beginning of year			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (2,530,882)		\$ (2,530,882)
(1,169,793)		(1,169,793)
(1,213,929)		(1,213,929)
<u>(4,914,604)</u>		<u>(4,914,604)</u>
32,792		32,792
(220,761)		(220,761)
(858,258)		(858,258)
(717,463)		(717,463)
(460,035)		(460,035)
<u>(2,223,725)</u>		<u>(2,223,725)</u>
(87,156)		(87,156)
(7,917)		(7,917)
-		-
<u>(373,712)</u>		<u>(373,712)</u>
(468,785)		(468,785)
<u>(7,607,114)</u>		<u>(7,607,114)</u>
	<u>\$ 56,024</u>	<u>56,024</u>
<u>(7,607,114)</u>	<u>56,024</u>	<u>(7,551,090)</u>
2,906,952		2,906,952
346,842		346,842
304,635		304,635
857,145		857,145
3,547,087		3,547,087
3,876	428	4,304
(16,141)		(16,141)
201,114		201,114
<u>8,151,510</u>	<u>428</u>	<u>8,151,938</u>
544,396	56,452	600,848
<u>7,541,861</u>	<u>103,910</u>	<u>7,645,771</u>
<u>\$ 8,086,257</u>	<u>\$ 160,362</u>	<u>\$ 8,246,619</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General	Special Revenue Fund Management Levy	Capital Projects Fund Statewide Sales, Services, and Use Tax	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and pooled investments					
Other	\$ 1,495,216	\$ 507,466	\$ 325,265	\$ 306,838	\$ 2,634,785
Receivables					
Property tax					
Delinquent	88,340	10,667		10,285	109,292
Succeeding year	3,050,145	350,000		314,376	3,714,521
Accounts	2,917				2,917
Due from other funds				15,502	15,502
Due from other governments	447,723		159,469		607,192
Total assets	\$ 5,084,341	\$ 868,133	\$ 484,734	\$ 647,001	\$ 7,084,209
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 114,091			\$ 32,613	\$ 146,704
Salaries and benefits payable	881,400				881,400
Due to other funds	15,502				15,502
Deferred revenue					
Succeeding year property tax	3,050,145	\$ 350,000		314,376	3,714,521
Other	454,755			12,000	466,755
Total liabilities	4,515,893	350,000	\$ -	358,989	5,224,882
Fund balances					
Restricted for					
Management levy purposes		518,133			518,133
Student activities				157,555	157,555
School infrastructure			484,734		484,734
Physical plant and equipment				130,457	130,457
Unassigned	568,448				568,448
Total fund balances	568,448	518,133	484,734	288,012	1,859,327
Total liabilities and fund balances	\$ 5,084,341	\$ 868,133	\$ 484,734	\$ 647,001	\$ 7,084,209

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 1,859,327
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of \$ 7,578,262	8,644,209
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(1,515,000)
Real estate contract	(164,165)
Capital leases	(188,531)
Accrued interest	(11,372)
Compensated absences	(15,579)
Early retirement	(319,588)
Net OPEB liability	(203,044)
Net assets of governmental activities per Exhibit A	<u>\$ 8,086,257</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General	Special Revenue Fund Management Levy	Capital Projects Statewide Sales, Services, and Use Tax	Nonmajor Governmental Funds	Total
REVENUES					
Local sources					
Local property tax	\$ 3,182,282	\$ 346,842		\$ 304,635	\$ 3,833,759
Tuition	173,605				173,605
Other	197,334	14,267	\$ 611,880	389,432	1,212,913
State sources	4,701,952	246		212	4,702,410
Federal sources	458,594			11,578	470,172
Total revenues	8,713,767	361,355	611,880	705,857	10,392,859
EXPENDITURES					
Current					
Instruction					
Regular instruction	3,765,941	234,294			4,000,235
Special instruction	1,224,310				1,224,310
Other instruction	960,695			394,483	1,355,178
	5,950,946	234,294	-	394,483	6,579,723
Support services					
Student services	329,961				329,961
Instructional staff services	220,441				220,441
Administration services	808,021	41,429			849,450
Operation and maintenance plant services	630,651	38,155			668,806
Transportation services	461,622	9,027			470,649
	2,450,696	88,611	-	-	2,539,307
Other					
Long-term debt					
Principal				263,178	263,178
Interest and fiscal charges				83,173	83,173
Facilities acquisition			496,591	516,431	1,013,022
AEA flowthrough	380,930				380,930
	380,930	-	496,591	862,782	1,740,303
Total expenditures	8,782,572	322,905	496,591	1,257,265	10,859,333
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(68,805)	38,450	115,289	(551,408)	(466,474)
OTHER FINANCING SOURCES (USES)					
Operating transfers in				346,351	346,351
Operating transfers (out)			(247,173)	(99,178)	(346,351)
Long-term debt proceeds				240,874	240,874
	-	-	(247,173)	488,047	240,874
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	(68,805)	38,450	(131,884)	(63,361)	(225,600)
FUND BALANCE, beginning of year	637,253	479,683	616,618	351,373	2,084,927
FUND BALANCE, end of year	\$ 568,448	\$ 518,133	\$ 484,734	\$ 288,012	\$ 1,859,327

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$	(225,600)
 Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation	\$	(450,539)
Capital outlays	1,128,121	677,582
<hr/>		
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Current year repayments exceeded issues, as follows:		
Repaid	263,178	
Issued	(240,874)	22,304
<hr/>		
The net effect of disposal of capital assets		(16,141)
 Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
		(3,983)
 Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(330)	
Early retirement	134,198	
Net OPEB liability	(43,634)	90,234
<hr/>		
Change in net assets of governmental activities per Exhibit B	\$	<u>544,396</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

EXHIBIT E

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
ASSETS		
CURRENT ASSETS		
Cash	\$ 122,507	\$ 6,323
Inventories	2,621	
Total current assets	125,128	6,323
NONCURRENT ASSETS		
Furniture and equipment	156,187	
Less accumulated depreciation	(100,539)	
Total noncurrent assets	55,648	-
Total assets	\$ 180,776	\$ 6,323
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 390	
Contracts and benefits payable	15,963	
Deferred revenue	4,061	
Total liabilities	20,414	\$ -
NET ASSETS		
Invested in capital assets	55,648	
Unrestricted	104,714	6,323
Total net assets	160,362	6,323
Total liabilities and net assets	\$ 180,776	\$ 6,323

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

EXHIBIT F

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
OPERATING REVENUES		
Local sources		
Charges for services	\$ 241,320	\$ 38,523
OPERATING EXPENSES		
Non-instructional programs		
Food service operations		
Salaries and benefits	186,858	
Supplies	208,943	
Depreciation	9,530	
Other		39,884
Total operating expenses	405,331	39,884
Operating (loss)	(164,011)	(1,361)
NONOPERATING REVENUES		
Interest income	428	16
State sources	4,194	
Federal sources	215,841	
Total nonoperating revenues	220,463	16
Change in net assets	56,452	(1,345)
Net assets, beginning of year	103,910	7,668
Net assets, end of year	\$ 160,362	\$ 6,323

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sale of lunches and breakfasts	\$ 241,322	
Cash payments to employees for services	(191,687)	
Cash payments to suppliers for goods and services	(207,404)	
Cash reimbursed by operating fund		\$ 38,523
Cash payments by operating activities		(39,884)
Net cash (used in) operating activities	(157,769)	(1,361)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State grants and federal grants received	220,035	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(9,452)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	428	16
Net increase (decrease) in cash	53,242	(1,345)
CASH, beginning of year	69,265	7,668
CASH, end of year	\$ 122,507	\$ 6,323
Reconciliation of operating (loss) to net cash (used in) operating activities		
Operating (loss)	\$ (164,011)	\$ (1,361)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities		
Depreciation	9,530	
Decrease in inventories	442	
Decrease in contracts and benefits payable	(4,829)	
Increase in deferred revenue	1,099	
Net cash (used in) operating activities	\$ (157,769)	\$ (1,361)

Non-cash, noncapital financing activities:

During the year ended June 30, 2011, the District received commodities valued at \$35,995.

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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

b. Significant Accounting Policies

Scope of Reporting Entity

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

Joint Venture

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

Jointly Governed Organizations

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

District-wide Financial Statements

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

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

b. Significant Accounting Policies (Continued)

District-wide Financial Statements (Continued)

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

Fund Financial Statements

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

The funds of the financial reporting entity are described below:

Governmental

General Fund

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

Management Levy-Special Revenue Fund

The management levy-special revenue fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Capital Projects Fund

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

Proprietary Funds

Enterprise Fund

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

Internal Service Fund

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

Measurement Focus and Basis of Accounting

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

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

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

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

- a. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School District considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred.
- b. The District-wide statements and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized 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.

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 funds of the District applies all applicable GASB pronouncements, as well as 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.

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

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

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

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.

Assets, Liabilities and Equity

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

Cash, Pooled Investments and Cash Equivalents

The cash balances of most District funds are pooled and invested. All investment activity is carried on by the District in each individual fund. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

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

Property Tax Receivable

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 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.

Interfund Transactions

During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2011, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the District-wide statements.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Due from Other Governments

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

Inventories

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

Capital Assets

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years:

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School nutrition fund equipment	1,000
Other furniture and equipment	1,000
Intangibles	50,000

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

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

Salaries and Benefits Payable

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2011 was used to calculate the salaries payable.

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Deferred Revenue

In the fund financial statements certain revenues are measurable, however they are not available. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable and unspent grant proceeds. 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 and unspent grant proceeds.

Long-term Obligation

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets. Early retirement liability has been paid primarily by the governmental management levy fund.

Compensated Absences

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

Fund Balance

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

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

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

Net Assets

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

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

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

Budgets and Budgetary Accounting

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

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

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)
Management Estimates

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

2. Deposits and Pooled Investments

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

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

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Direct government obligation portfolio	\$ 1,429,205
Diversified portfolio	114,380
	\$ 1,543,585

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

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

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2011:

Governmental	
General fund	
Title I	\$ 14,313
Title IIA	41,977
Medicaid	6,572
State vocational aid	5,680
IDEA	22,412
Income surtax	316,052
Various programs	40,717
Capital projects	
Statewide sales, services and use tax	159,469
	\$ 607,192

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

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

	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Governmental activities				
Land	\$ 128,450			\$ 128,450
Capital assets being depreciated				
Buildings	5,921,101	\$ 33,842	\$ None	5,954,943
Improvements	4,288,310	421,835	82,525	4,627,620
Furniture and equipment	5,126,406	486,544	287,392	5,325,558
Infrastructure in progress	12,582	185,900	12,582	185,900
Total capital assets being depreciated	15,348,399	1,128,121	382,499	16,094,021
Less accumulated depreciation for:				
Buildings	2,201,406	115,238		2,316,644
Improvements	849,308	111,809	78,966	882,151
Furniture and equipment	4,443,367	223,492	287,392	4,379,467
Total accumulated depreciation	7,494,081	450,539	366,358	7,578,262
Total capital assets being depreciated, net	7,854,318	677,582	16,141	8,515,759
Governmental activities				
Capital assets	\$ 7,982,768	\$ 677,582	\$ 16,141	\$ 8,644,209
Business-type activities				
Furniture and equipment	\$ 146,736	\$ 9,451		\$ 156,187
Less accumulated depreciation	91,009	9,530	\$ None	100,539
Business-type activities				
Capital assets, net	\$ 55,727	\$ (79)	\$ None	\$ 55,648

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

Governmental activities	
Instruction	
Regular	\$ 16,407
Support services	
Operation and maintenance of plant	48,459
Student support services	11,641
Instructional staff support services	320
	76,827
Unallocated depreciation	373,712
Total depreciation expense-governmental activities	\$ 450,539
Business-type activities	
Food services	\$ 9,530

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ None		\$ None	\$ None	
Revenue bonds	1,690,000		175,000	1,515,000	\$ 180,000
	1,690,000		175,000	1,515,000	180,000
Other liabilities					
Capital leases	None	\$ 240,874	52,343	188,531	44,180
Real estate contract	200,000		35,835	164,165	37,806
Compensated absences	15,249	15,579	15,249	15,579	15,579
Early retirement	453,786	64,300	198,498	319,588	186,398
	669,035	320,753	301,925	687,863	283,963
Governmental activities					
Long-term liabilities	\$ 2,359,035	\$ 320,753	\$ 476,925	\$ 2,202,863	\$ 463,963

a. Real Estate Contract

The District entered into a real estate contract for the purchase of land for the construction of a bus barn. The note is due in annual installments of \$46,835 through May 15, 2015 including interest at 5.50%. The contract, which is secured by the land, had a balance of \$188,531 at June 30, 2011.

b. Early Retirement

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

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

At June 30, 2011, the District has obligations to 18 participants with a total liability of \$319,588. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$198,498.

c. Bonded Indebtedness

\$365,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue bonds due annually in varying installments June 1, 2012 through June 1, 2013 plus interest semi-annually with interest rates of the bonds varying from 4.30% to 4.40%.

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

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

c. **Bonded Indebtedness (Continued)**

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

Year Ending June 30,	Principal	Interest
2012	\$ 180,000	\$ 64,910
2013	185,000	57,170
2014	110,000	49,030
2015	115,000	44,575
2016-2020	630,000	148,875
2021-2025	295,000	26,405
	\$ 1,515,000	\$ 390,965

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

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

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

At June 30, 2011, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 374,969,598
Debt limit – 5% of total assessed valuation	\$ 18,748,480
Debt applicable to debt limit	
Capital leases	(188,531)
Real estate contract	(164,165)
Bonded debt outstanding	(1,515,000)
Legal debt margin	\$ 16,880,784

NOTES TO FINANCIAL STATEMENTS

6. Capital Leases

The District has leased three buses under capital leases. The leased assets are accounted for in the statewide sales, services and use tax, a capital projects fund. Capital assets under capital leases totaled \$209,372 at June 30, 2011. The following is a schedule of future minimum lease payments under the capital leases as of June 30, 2011:

	Year Ending June 30,	Amount
	2012	\$ 52,343
	2013	52,343
	2014	52,343
	2015	52,343
		209,372
Less imputed interest		20,841
Present value of minimum lease payments		\$ 188,531

7. Due to/from Other Funds

As of June 30, 2011, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Due from Other Funds	Due to Other Funds
General fund		\$ 15,502
Physical plant and equipment levy fund	\$ 15,502	
	\$ 15,502	\$ 15,502

The interfund receivables are loans from each respective fund all of which may not be repaid in the next year.

8. Interfund Transfers

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

	Transfers In	Transfers Out
Capital projects fund		\$ 247,173
Physical plant and equipment levy fund		99,178
Debt service fund	\$ 346,351	
Total	\$ 346,351	\$ 346,351

Transfers from the physical plant and equipment levy fund and the capital projects fund to the debt service fund were to move resources from bond issuance to help pay bond expenses.

9. Leases

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

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

Year ended June 30,			
2012	\$	23,234	
2013		23,234	
2014		23,234	
2015		21,298	
		91,000	
	\$	91,000	

Total lease expense for the year ended June 30, 2011 was \$23,234.

10. 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%, 4.30% and 4.10% of their annual covered salary and the District is required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010, and 2009, respectively. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$342,770, \$337,658 and \$334,944 respectively, equal to the required contributions for each year.

11. Other Postemployment Benefits (OPEB)

Plan Description

As explained in Note 12, the District is a member of the Northeast Iowa Schools Insurance Trust (trust) which provides medical and prescription drug benefits for retirees and their spouses. North Fayette Community School District has 102 active and 19 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy

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

11. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution	\$	59,990
Interest on net OPEB obligation		1,500
Adjustment to annual required contribution		None
Annual OPEB cost		61,490
Contributions made		(17,856)
Increase in net OPEB obligation		43,634
Net OPEB obligation beginning of year		159,410
Net OPEB obligation end of year	\$	203,044

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year end June 30, 2011.

For the year ended June 30, 2011, the District contributed \$17,856 to the medical plan for the OPEB obligation. Plan members eligible for benefits contributed \$None of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized below as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 81,367	0%	\$ 81,367
June 30, 2010	\$ 78,043	0%	\$ 159,410
June 30, 2011	\$ 61,490	29.04%	\$ 203,044

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$605,690, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$605,690. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.092 million, and the ratio of the UAAL to covered payroll was 14.8%. As of June 30, 2011, there were no trust fund assets.

11. Other Postemployment Benefits (OPEB) (Continued)

Actuarial Methods and Assumptions

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

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

As of July 1, 2010 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2009 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2009.

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

12. Employee Insurance Plan

Monthly payments of service fees and plan contributions are recorded as expenditures in the general fund at the time of payment to the Northeast Iowa Schools Insurance Trust (trust) maintained by Midwest Group Benefits Consultants, Inc. The trust's Board of Directors decided to terminate the self-funded health plans, effective July 1, 2009, and change to partially self-funded plans using fully insured health plans through Wellmark Blue Cross/Blue Shield. There were three new plans offered to the schools. The trust assumes liability for claims on its three plans as follows: Plan 1 – between \$500 and \$5,000 for single coverage and \$1,000 and \$10,000 for family coverage, Plan 2 – between \$1,000 and \$5,000 for single coverage and \$2,000 and \$10,000 for family coverage and Plan 3 – between \$2,000 and \$5,000 for single coverage and \$4,000 and \$10,000 for family coverage. All plans include coinsurance and Plan 2 includes copayments. Claims in excess of the deductible are insured through the purchase of insurance. The District may be contingently liable for any claims in excess of funds available at June 30, 2011, since the pool arrangement allows the trust to make additional assessments to members. The District's share of the trust's liability for any unreported claim or assessment at June 30, 2011 was unavailable as of November 14, 2011. The District contributions to the trust for the years ended June 30, 2011, 2010, and 2009 were \$1,027,457, \$938,600 and \$960,436, respectively, which equaled the required contributions each year.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2011, no liability has been recorded in the District's financial statements. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance company coverage.

13. Risk Management

North Fayette Community School District is exposed to various risks of loss related to torts; theft; damage to an 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.

14. 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 \$380,930 for the year ended June 30, 2011 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

15. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose their deductible as well as having the option to have un-reimbursed medical and dependent care expenses deducted on a pre-tax basis. The District contributes \$710 per month for certified staff at least half time, \$655 for non-certified staff at least half time, and \$1,514 for administration staff. The difference between the District's contribution and the amount of health premium is put into a TSA or HSA of the employee's choice or subtracted from the employee's salary. There were 109 participants in the plan for the year ended June 30, 2011.

16. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011 significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

As discussed in Note 12, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

17. Commitments

The total outstanding construction and other commitments of the District at June 30, 2011 amount to \$42,619.

18. Accounting Change and Restatement

Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions was implemented during fiscal year 2011.

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
For the Year Ended June 30, 2011

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
REVENUES			
Local sources	\$ 5,220,277	\$ 241,748	\$ 5,462,025
State sources	4,702,410	4,194	4,706,604
Federal sources	470,172	215,841	686,013
Total revenues	10,392,859	461,783	10,854,642
EXPENDITURES/EXPENSES			
Instruction	6,579,723		6,579,723
Support services	2,539,307		2,539,307
Non-instructional		405,331	405,331
Other	1,740,303		1,740,303
Total expenditures/expenses	10,859,333	405,331	11,264,664
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(466,474)	56,452	(410,022)
OTHER FINANCING SOURCES, NET	240,874	-	240,874
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(225,600)	56,452	(169,148)
FUND BALANCE, beginning of year	2,084,927	103,910	2,188,837
FUND BALANCE, end of year	\$ 1,859,327	\$ 160,362	\$ 2,019,689

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 5,570,666	\$ 5,570,666	\$ (108,641)
5,133,915	5,133,915	(427,311)
538,000	538,000	148,013
<u>11,242,581</u>	<u>11,242,581</u>	<u>(387,939)</u>
6,675,000	6,675,000	95,277
3,509,000	3,509,000	969,693
500,000	500,000	94,669
1,048,908	1,483,273	(257,030)
<u>11,732,908</u>	<u>12,167,273</u>	<u>902,609</u>
(490,327)	(924,692)	514,670
<u>-</u>	<u>-</u>	<u>240,874</u>
(490,327)	(924,692)	755,544
<u>1,409,659</u>	<u>1,409,659</u>	<u>779,178</u>
<u>\$ 919,332</u>	<u>\$ 484,967</u>	<u>\$ 1,534,722</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

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

During the year ended June 30, 2011, expenditures in the other function exceeded the amount budgeted.

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

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 691	\$ 691	0.0%	\$ 4,792	14.4%
2010	July 1, 2008	-	\$ 676	\$ 676	0.0%	\$ 4,686	14.4%
2011	July 1, 2010	-	\$ 606	\$ 606	0.0%	\$ 4,092	14.8%

See Note 11 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

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

Our report on our audit of the financial statements of North Fayette Community School District as of and for the year ended June 30, 2011 appears on pages 2-3. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the financial statements of North Fayette Community School District as of and for the years ending June 30, 2008, 2009 and 2010, none of which are presented herein, and expressed unqualified opinions on those financial statements. In our opinion, the information set forth in the required supplementary information for each of the four years in the period ended June 30, 2011, appearing on page 36 and pages 42 through 46, is fairly stated, in all material respects in relation to the financial statements from which it has been derived. The financial statements of North Fayette Community School District for the years ended June 30, 2005, 2006 and 2007 were audited by other auditors who expressed unqualified opinions on those financial statements. Their reports on the information presented on page 36 and pages 42 through 46 related to the 2005 to 2007 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2005 to 2007 financial statements taken as a whole. On page 45 the spending authority for fiscal year 2011 has not been audited and we express no opinion on it. On page 46 the estimated enrollment for fiscal year 2012 has not been audited and we express no opinion on it.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2011

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue Fund <u>Student Activity</u>	Capital Projects Fund <u>Physical Plant and Equipment Levy</u>	Debt Service	Total Nonmajor Funds
ASSETS				
Cash and pooled investments	\$ 157,555	\$ 149,283		\$ 306,838
Receivables				
Property tax				
Delinquent		10,285		10,285
Succeeding year		314,376		314,376
Due from other funds		15,502		15,502
	<u>157,555</u>	<u>149,283</u>		<u>306,838</u>
Total assets	\$ 157,555	\$ 489,446	\$ -	\$ 647,001
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable		\$ 32,613		\$ 32,613
Deferred revenue				
Succeeding year property tax		314,376		314,376
Other		12,000		12,000
		<u>358,989</u>		<u>358,989</u>
Total liabilities	\$ -	\$ 358,989	\$ -	\$ 358,989
Fund balances				
Restricted for				
Student activities	157,555			157,555
Physical plant and equipment		130,457		130,457
	<u>157,555</u>	<u>130,457</u>	-	<u>288,012</u>
Total liabilities and fund balances	\$ 157,555	\$ 489,446	\$ -	\$ 647,001

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2011

	Special Revenue Fund <u>Student Activity</u>	Capital Projects Fund <u>Physical Plant and Equipment Levy</u>	Debt Service	Total Nonmajor Funds
REVENUES				
Local sources				
Property taxes		\$ 304,635		\$ 304,635
Other	\$ 375,333	14,099		389,432
State sources		212		212
Federal sources		11,578		11,578
Total revenues	<u>375,333</u>	<u>330,524</u>	<u>\$ -</u>	<u>705,857</u>
EXPENDITURES				
Current				
Instruction				
Other instruction	394,483			394,483
Other				
Facilities acquisition		516,431		516,431
Long-term debt				
Principal			263,178	263,178
Interest and fiscal charges			83,173	83,173
Total expenditures	<u>394,483</u>	<u>516,431</u>	<u>346,351</u>	<u>1,257,265</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(19,150)</u>	<u>(185,907)</u>	<u>(346,351)</u>	<u>(551,408)</u>
OTHER FINANCING SOURCES				
Transfers in			346,351	346,351
Transfers (out)		(99,178)		(99,178)
Long-term debt proceeds		240,874		240,874
	<u>-</u>	<u>141,696</u>	<u>346,351</u>	<u>488,047</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	<u>(19,150)</u>	<u>(44,211)</u>	<u>-</u>	<u>(63,361)</u>
FUND BALANCE, beginning of year	<u>176,705</u>	<u>174,668</u>	<u>-</u>	<u>351,373</u>
FUND BALANCE, end of year	<u>\$ 157,555</u>	<u>\$ 130,457</u>	<u>\$ -</u>	<u>\$ 288,012</u>

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2011

	Balance June 30, 2010	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2011
Elementary School Activities:				
Playground	\$ 941		\$ 485	\$ 456
Fayette attendance	664		664	-
Hawkeye attendance	2,827	\$ 2,130	873	4,084
West Union attendance	1,451	3,899	3,871	1,479
Interest	1,122	33	40	1,115
NF Shop		2,951	2,898	53
Middle School Activities:				
Athletics	5,888	6,730	6,825	5,793
Steering Committee	190	558	748	-
Micro Society	1,542		1,542	-
Pop machine	2,095	3,663	3,657	2,101
School Store	1,218		1,218	-
FRCYSE - at RISK	393		393	-
Tag	11			11
Musical		3,732	1,243	2,489
Hawk		40	(2,939)	2,979
High School Activities:				
Athletics	72,071	109,614	102,379	79,306
Interest	6	850	840	16
Speech	2,893	335	2,154	1,074
Speech fall play	5,343	3,466	3,512	5,297
Vocal music	4,435	3,256	4,293	3,398
Musical	7,212		3,500	3,712
Band	5,750	1,730	2,640	4,840
Art club	840	743	870	713
Yearbook	8,018	12,363	13,624	6,757
BPA	27	1,260	1,287	-
FFA	17,416	66,208	72,056	11,568
FHA	145	1,401	1,520	26
Honor Society	202	266	306	162
Student Council	542	2,584	2,278	848
Math/Science	658	11,374	11,297	735
Technology Club	771		771	-
German program	920	19,994	17,048	3,866
German bound	5,152		5,152	-
Spanish	1,912	60	84	1,888
Spanish bound	5,214	21,301	26,397	118
Cheerleading	4,212	595	3,867	940
Danceline	6,009	11,731	11,990	5,750
Class of:				
2011	1,164	347	995	516
2012	1,811	4,919	6,429	301
2013		1,455		1,455
Activity ticket	2,805	7,738	10,543	-
Graduation fees		616	616	-
STW - Enterprise	858	66,754	66,317	1,295
Mini Arts Festival	1,977	637	200	2,414
	<u>\$ 176,705</u>	<u>\$ 375,333</u>	<u>\$ 394,483</u>	<u>\$ 157,555</u>

See Independent Auditor's Report on the Supplementary Information.

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

	Modified Accrual		
	2011	2010	2009
REVENUES			
Local sources			
Local tax	\$ 3,833,759	\$ 3,788,960	\$ 3,589,066
Tuition	173,605	178,394	170,160
Other	1,212,913	956,330	1,331,429
Intermediate sources			
State sources	4,702,410	4,136,849	5,123,655
Federal sources	470,172	752,086	335,251
Total revenues	\$ 10,392,859	\$ 9,812,619	\$ 10,549,561
EXPENDITURES			
Current			
Instruction			
Regular instruction	\$ 4,000,235	\$ 3,838,255	\$ 3,990,281
Special instruction	1,224,310	1,049,182	1,180,888
Other instruction	1,355,178	1,446,876	1,264,914
Support services			
Student services	329,961	308,378	296,834
Instructional staff services	220,441	210,354	238,041
Administration services	849,450	816,489	856,444
Operation and maintenance plant services	668,806	774,120	781,580
Transportation services	470,649	416,350	430,982
Other			
Facilities acquisition	1,013,022	776,688	1,191,661
Long-term debt			
Principal	263,178	220,114	212,847
Interest and fiscal charges	83,173	81,137	89,404
AEA flowthrough	380,930	379,576	355,848
Total expenditures	\$ 10,859,333	\$ 10,317,519	\$ 10,889,724

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

Modified Accrual			
2008	2007	2006	2005
\$ 3,574,782	\$ 3,972,590	\$ 3,828,672	\$ 3,871,344
185,900	179,932	178,189	168,181
1,455,768	1,020,161	573,398	528,874
		750	51,640
5,220,404	4,926,840	4,488,172	4,231,743
225,193	240,238	315,821	279,263
<u>\$ 10,662,047</u>	<u>\$ 10,339,761</u>	<u>\$ 9,385,002</u>	<u>\$ 9,131,045</u>
\$ 4,015,185	\$ 3,923,888	\$ 3,737,695	\$ 3,786,343
1,052,349	1,108,027	1,020,967	869,707
1,084,304	975,240	1,114,113	933,325
290,287	279,887	272,124	224,712
222,659	182,007	230,290	256,867
889,189	815,604	774,339	677,941
788,831	1,015,021	715,398	776,970
471,904	464,843	396,250	401,072
1,119,191	2,234,761	532,183	105,727
375,673	368,588	362,478	295,000
104,328	75,253	71,740	134,404
348,651	339,590	316,945	313,183
<u>\$ 10,762,551</u>	<u>\$ 11,782,709</u>	<u>\$ 9,544,522</u>	<u>\$ 8,775,251</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394-ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act
 - CFDA Number 84.391-ARRA-Special Education Grants to States, Recovery Act
 - CFDA Number 84.397-ARRA- State Fiscal Stabilization (SFSF)-Government Services, Recovery Act
 - Clustered programs:
 - CFDA Number 10.553-School Breakfast Program
 - CFDA Number 10.555-National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) North Fayette Community School District did not qualify as a low-risk auditee.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-11 Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

II-B-11 Overlapping Duties

The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize the District is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.394-ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act
CFDA Number 84.391-ARRA-Special Education Grants to States, Recovery Act
CFDA Number 84.397-ARRA- State Fiscal Stabilization Fund (SFSF)-Government Services, Recovery Act
Federal Award Year: 2011
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 10.553- School Breakfast Program
CFDA Number 10.555- National School Lunch Program
Federal Award Year: 2011
U.S. Department of Agriculture
Passed through the Iowa Department of Education

See II-A-11 and II-B-11 above.

Part IV: Other Findings Related to Required Statutory Reporting:

See Management Letter dated November 14, 2011.

Part V: Summary of Prior Federal Audit Findings and Questions Costs

Comment Reference	Comment Title	Status	Explanation
II-A-10	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-10	Overlapping duties	Not corrected	The District has limited staff and segregates duties to the best of their abilities.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY11	\$ 28,738
National School Lunch Program	10.555	FY11	150,761
			<u>179,499</u>
Food Distribution Program (non-cash)	10.550	FY11	35,996
Total Department of Agriculture			<u>215,495</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY11	92,019
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389A	FY11	32,693
			<u>124,712</u>
Education Jobs Fund	84.410	FY11	495
State Grants for Innovative Programs	84.298	FY11	5,415
Tech-Prep Education	84.243	FY11	114
Rural Education Achievement Program	84.358	FY11	44,823
Improving Teacher Quality State Grants	84.367	FY11	41,977
ARRA - Special Education Grants to States, Recovery Act	84.391	FY11	62,676
ARRA- State Fiscal Stabilization Fund (SFSF)- Government Services, Recovery Act	84.397	FY11	41,365
ARRA - State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394	FY11	46,682
Total Department of Education			<u>368,259</u>
			<u>\$ 583,754</u>

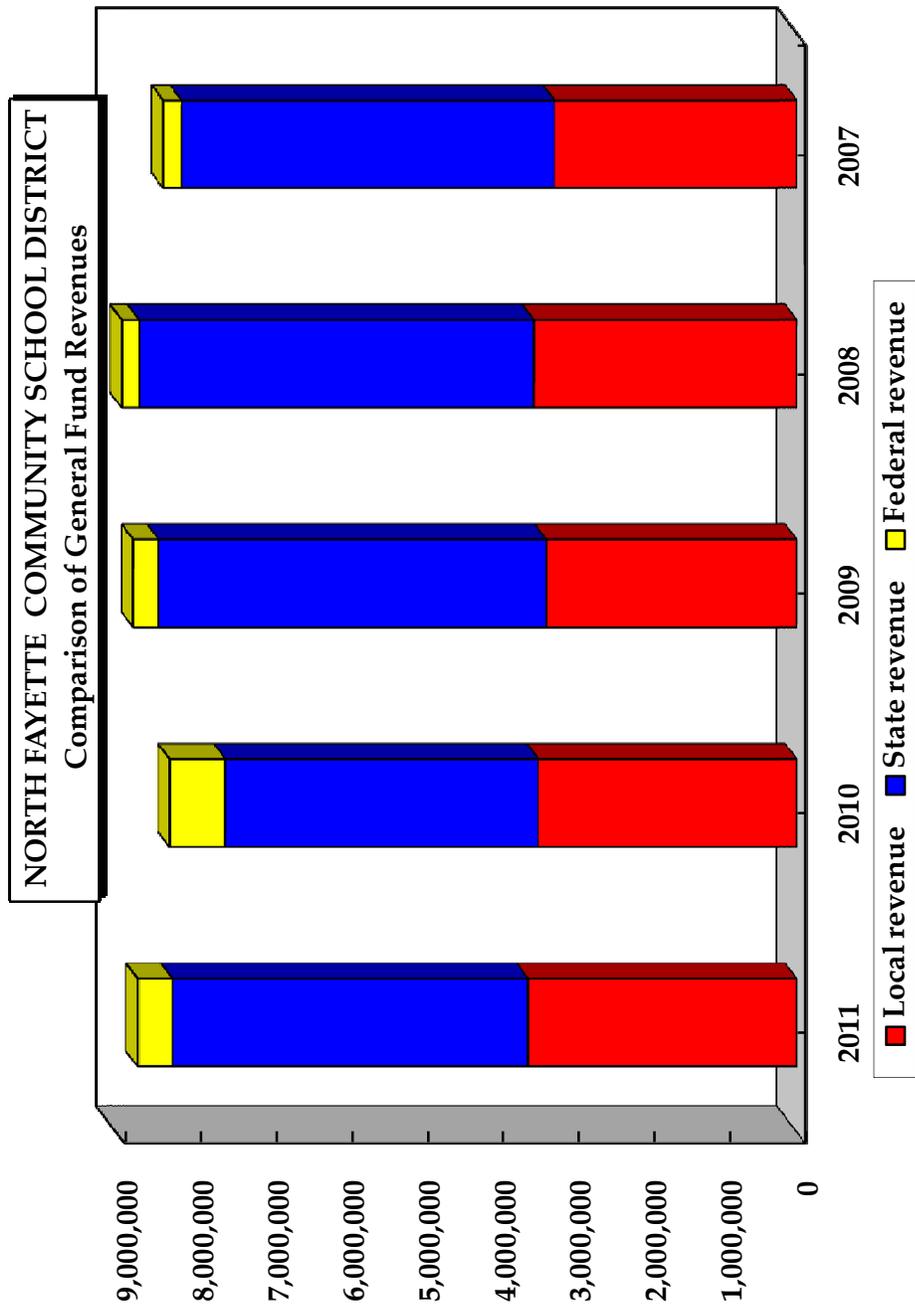
See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

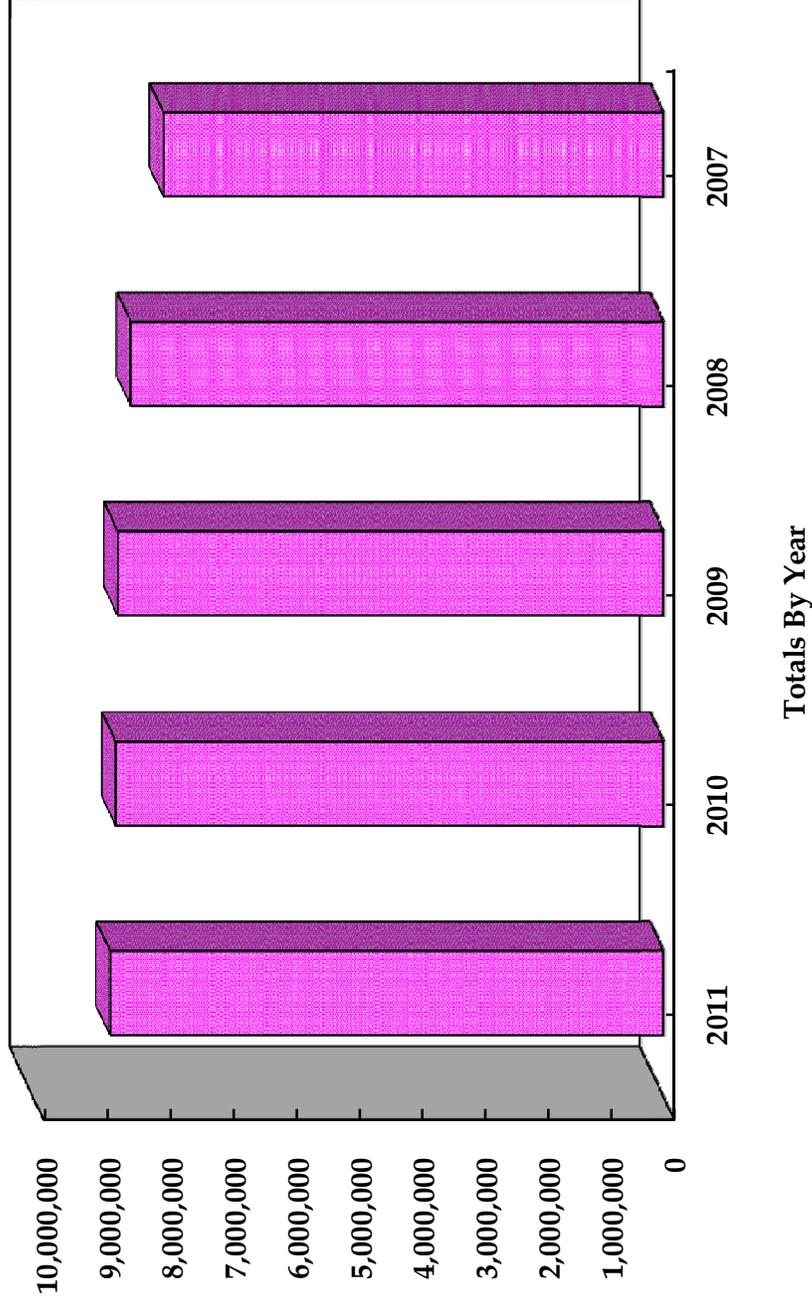
Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of North Fayette Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

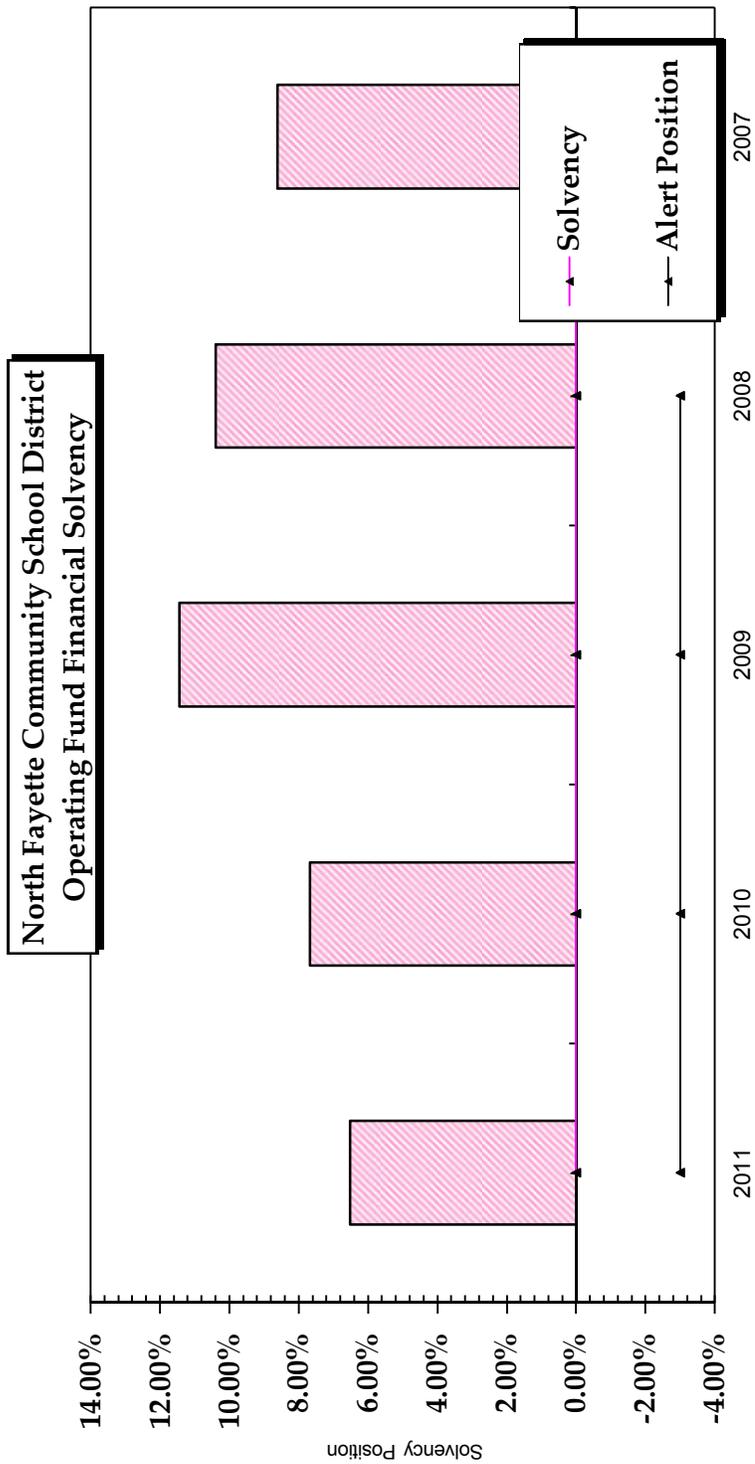


See Independent Auditor's Report on the Supplementary Information.

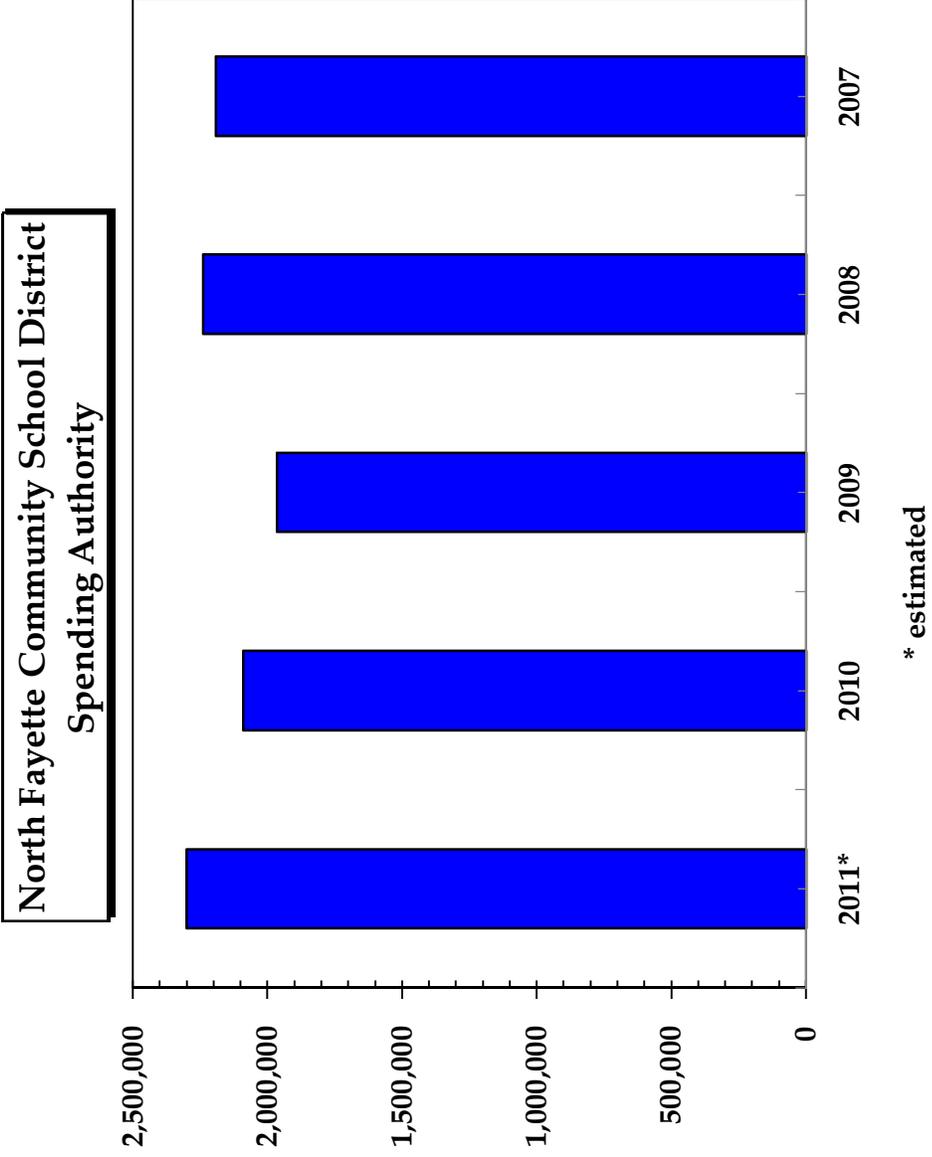
**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Comparison of General Fund Expenditures**



See Independent Auditor's Report on the Supplementary Information.

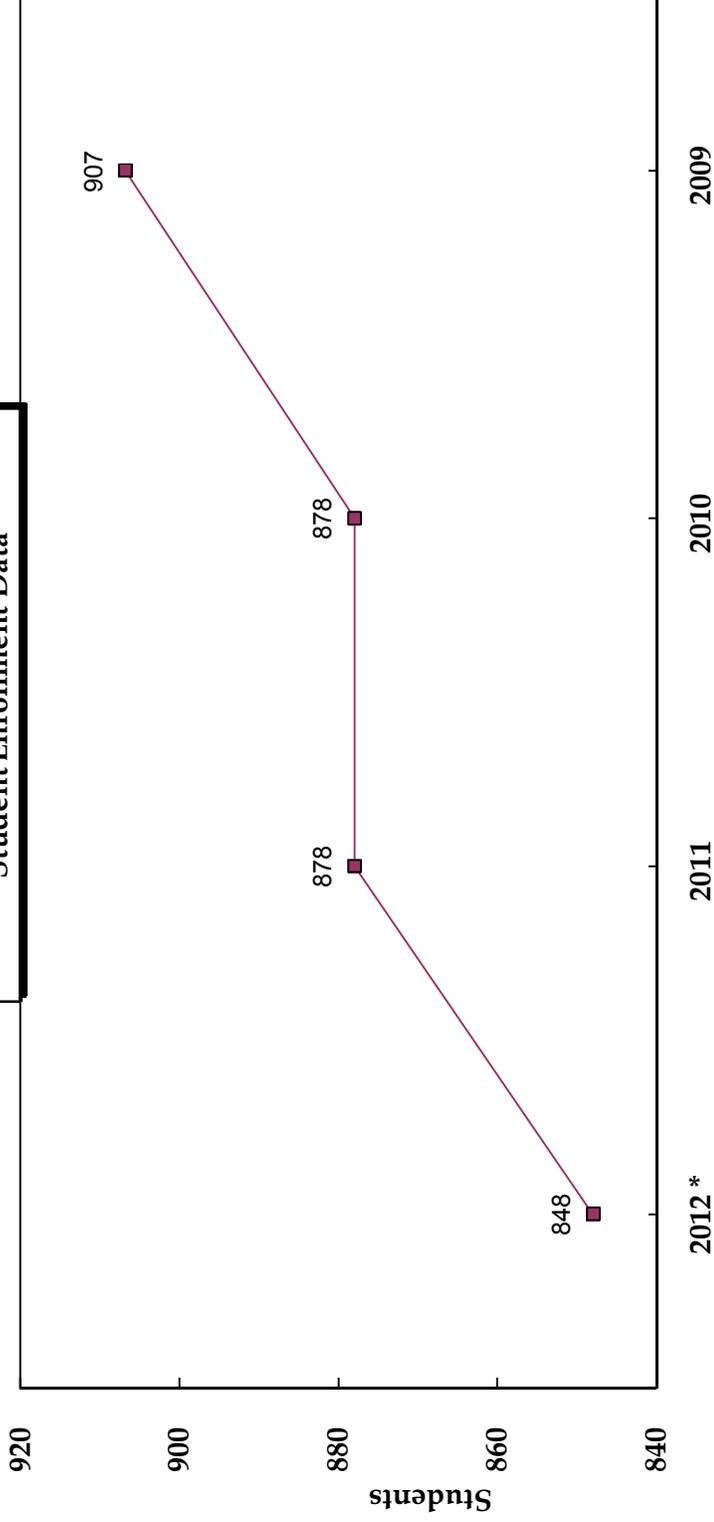


See Independent Auditor's Report on the Supplementary Information.



See Independent Auditor's Report on the Supplementary Information.

North Fayette Community School District
Student Enrollment Data

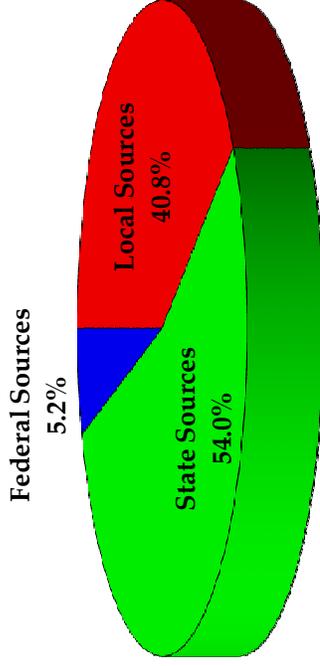


Resource: Total School Enrollment, Not Certified Enrollment, Line 11 of Certified Enrollment Form

*estimated enrollment, has not been audited

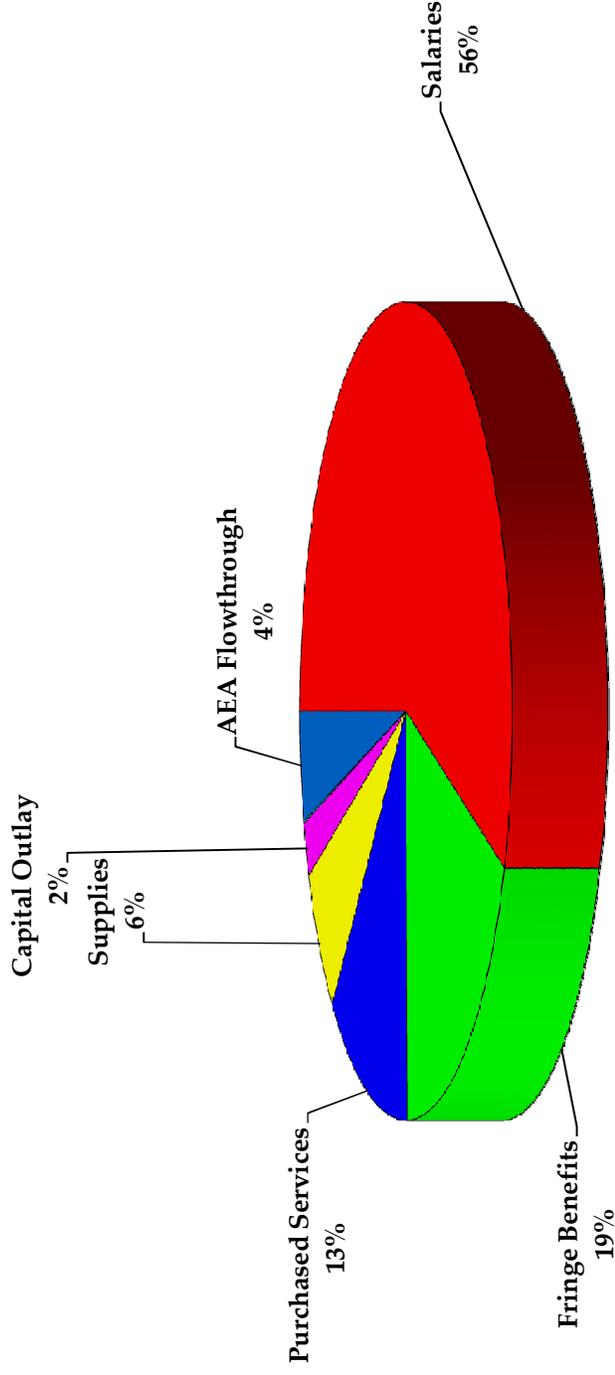
See Independent Auditor's Report on the Supplementary Information.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
General Fund Revenue Analysis Year Ended June 30, 2011**



See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
General Fund Expenditure Analysis Year Ended June 30, 2011



See Independent Auditor's Report on the Supplementary Information.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Fayette Community School District as of and for the year ended June 30, 2011, which collectively comprise North Fayette Community School District's basic financial statements and have issued our report thereon dated November 14, 2011. 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 North Fayette 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 an opinion on the effectiveness of North Fayette Community School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of North Fayette Community School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items II-A-11 and II-B-11 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of North Fayette Community School District in a separate letter dated November 14, 2011.

North Fayette Community School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit North Fayette Community School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management and 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.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2011

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited North Fayette Community School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Fayette Community School District's major federal programs for the year ended June 30, 2011. North Fayette Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of North Fayette Community School District's management. Our responsibility is to express an opinion on North Fayette Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Fayette Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of North Fayette Community School District's compliance with those requirements.

In our opinion, North Fayette Community School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of North Fayette Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered North Fayette Community School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items II-A-11 and II-B-11. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

North Fayette Community School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit North Fayette Community School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management and 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.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2011

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MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of North Fayette Community School District for the year ended June 30, 2011, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 13 below are compliance comments required by the Iowa Auditor of State. A separate report dated November 14, 2011 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated November 14, 2011, on the financial statements of the North Fayette Community School District. Comment numbers 14, 15 and 16 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

1. Certified Budget

Expenditures for the year ended June 30, 2011 exceeded the amended budget amount in the other function.

Recommendation

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

Response

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

Conclusion

Response accepted.

2. Questionable Expenditures

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

3. Travel Expense

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

4. Business Transactions
We noted no business transactions between the District and District officials and/or employees for the year ended June 30, 2011.
5. Bond Coverage
Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes
We noted no transactions requiring Board approval, which had not been, approved by the Board. We also noted no minutes and bills that had not been published as required.
7. Certified Enrollment
No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting
No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments
No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Report
The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.
11. Categorical Funding
No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Student Activity Fund
No instances of noncompliance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), for money in the Student Activity Fund which should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program were noted.
13. Statewide Sales, Services and Use Tax
No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance		\$	None
Statewide sales, services and use tax			581,815
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	235,464	
Debt service for school infrastructure:			
General obligation debt		346,351	581,815
Ending balance		\$	None

13. Statewide Sales, Services and Use Tax (Continued)

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

	Per \$1,000 Of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.51	\$ 346,351
Physical plant and equipment levy	1.03	235,464
		<u>\$ 581,815</u>

14. Property and Equipment Records

We recommend for proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once each year and checked against the capital assets records. The District also needs to calculate depreciation expense on the appropriate capital assets. The entries have been made to the financial statements.

Recommendation

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

Response

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

Conclusion

Response accepted.

15. Disbursements

During our audit, we noted various items that were not in compliance with District procedures. From a total of sixty disbursements tested we noted sixteen disbursements that were not in compliance with District procedures, including one invoice that was not cancelled after it had been paid and fifteen that did not document approval for actual payment. The majority of these items were for travel reimbursement or local business charges and other reoccurring monthly payments that received previous and post Board approval. After subsequent review it appeared all tested disbursements were appropriate expenditures of public funds.

Recommendation

We recommend all invoices are properly authorized with signature approval and marked that it has been paid. We also recommend the purchase order be signed and attached to all applicable disbursements.

Response

The District does attach the check stub to all paid invoices. All paid invoices are audited and approved by the Board each month. We will implement additional procedures to address your recommendation.

Conclusion

Response accepted.

16. Bank Reconciliations
Reconciliations of book balances to the bank account by fund were not prepared by the District.
- Recommendation
To improve financial accountability and control, a monthly reconciliation by fund of the book and bank balances should be prepared and retained by the District. Any differences should be investigated and resolved in a timely matter.
- Response
We will implement a reconciliation of the book to bank balances including all cash and investment accounts.
- Conclusion
Response accepted.
17. Outstanding Checks
The District's bank reconciliations included outstanding checks over a year old.
- Recommendation
The District should review the checks to see if they have been cashed and if not to turn the checks over to the State Treasurer's office.
- Response
We will review the outstanding checks and turn over to state agency, if appropriate.
- Conclusion
Response accepted.
18. Sale of Property
Approximately \$11,500 of proceeds from the sale of miscellaneous items was put in the physical plant and equipment levy fund.
- Recommendation
Per Chapter 297.22(b) of the Code of Iowa, proceeds from the sale or disposition of property with a value of \$5,000 or less, other than real property, shall be placed in the general fund.
- Response
We will be more cognizant of Code compliance requirements in future fiscal years and place proceeds in the proper funds.
- Conclusion
Response accepted.
19. Enrollment
The District has been receiving money from the Area Education Agency (AEA) for a special education student who is a resident in another school district and no longer attends North Fayette School District for special education.
- Recommendation
The District should contact the AEA and the other school district to verify if the student is a resident of North Fayette School District or the other school district.
- Response
We will contact the AEA first and then the other school district.
- Conclusion
Response accepted.

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

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

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

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 14, 2011