

ESSEX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Essex Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Blake Jensen	President	2011
Doug Ohnmacht	Vice President	2011
Tim Johnson	Board Member	2013
Dennis Liljedahl	Board Member	2013
Christy Johnson	Board Member	2011
<b>(After September 2011 Election)</b>		
Doug Ohnmacht	President	2015
Tim Johnson	Vice President	2013
Blake Jensen	Board Member	2015
Dennis Liljedahl	Board Member	2013
Christy Johnson	Board Member	2015
<b>School Officials</b>		
Jim Dick	Superintendent	2012
Sherri Ruzek	Business Manager	2012
Kay Schaefer	Board Secretary	2012
Ahlers & Cooney, P.C.	Attorney	2012

ESSEX COMMUNITY SCHOOL DISTRICT

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

**(a professional corporation)**

**117 West 3rd Street North, Newton, Iowa 50208-3040**

**Telephone (641) 792-1910**

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2013 on our consideration of Essex Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 44 through 46 are not required parts of the basic financial statements, but are supplementary information

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (which are not presented here in) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson, P.C." The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2013

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

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Essex Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$2,601,173 in fiscal year 2011 to \$2,716,813 in fiscal year 2012, while General Fund expenditures decreased from \$2,537,103 in fiscal 2011 to \$2,686,079 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$493,270 in fiscal 2011 to \$524,004 in fiscal 2012, a 6.23% increase from prior year.
- The increase in General Fund revenues was attributable to an increase in local and state sources of revenue in fiscal 2012. The increase in expenditures was a result of increases in the instruction and support services functions.
- Overall, the District's net assets in the governmental activities increased by \$54,840 and increased in the business type activities by \$8,231.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor funds.

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

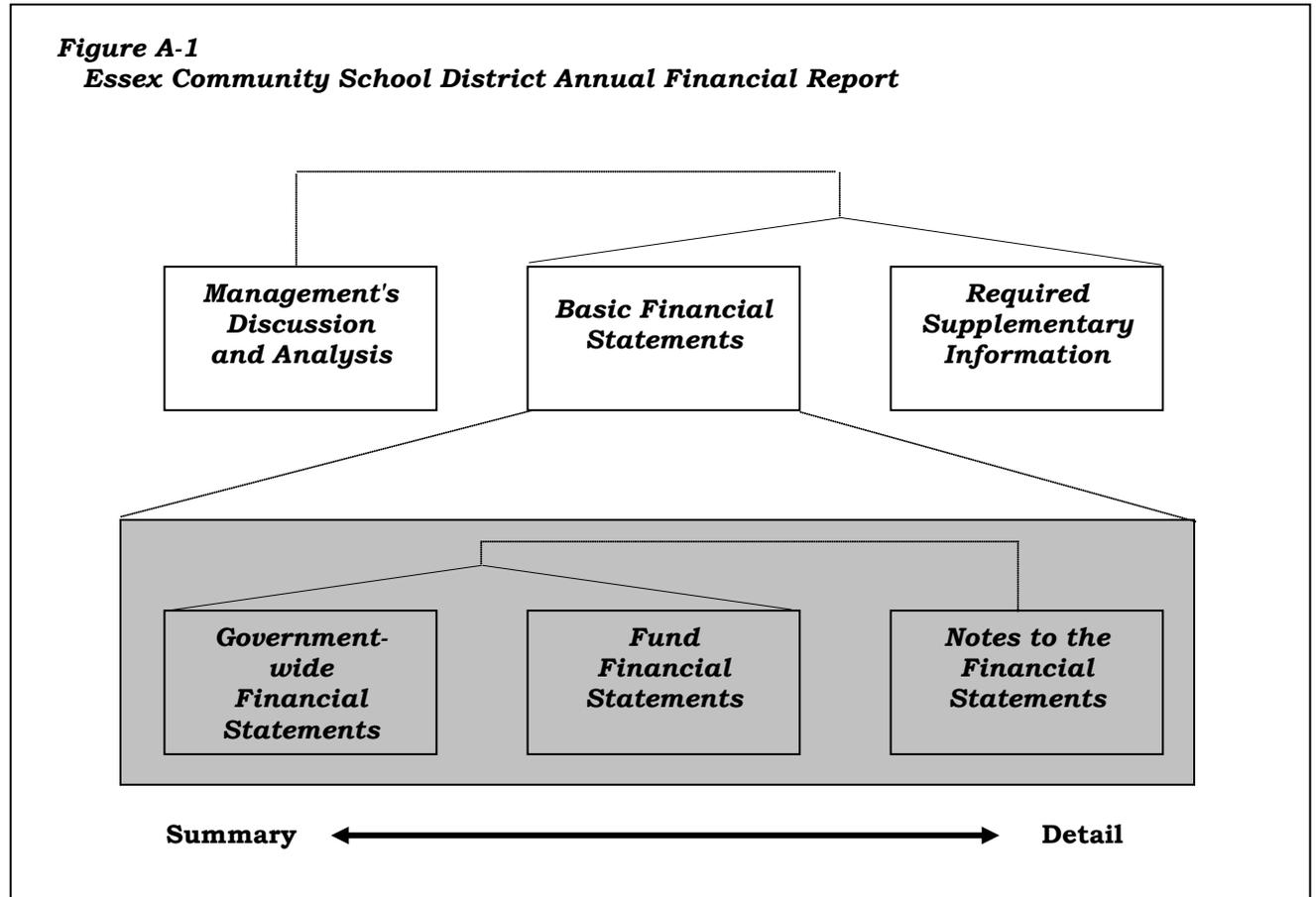


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

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

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 2,164,445	2,175,496	4,321	7,081	2,168,766	2,182,577	-0.63%
Capital assets	1,958,746	1,727,831	15,313	4,396	1,974,059	1,732,227	13.96%
Total assets	4,123,191	3,903,327	19,634	11,477	4,142,825	3,914,804	5.82%
Long-term obligations	608,263	421,234	-	-	608,263	421,234	44.40%
Other liabilities	1,262,358	1,284,363	1,273	1,347	1,263,631	1,285,710	-1.72%
Total liabilities	1,870,621	1,705,597	1,273	1,347	1,871,894	1,706,944	9.66%
Net assets:							
Invested in capital assets, net of related debt	1,610,246	1,477,831	15,313	4,396	1,625,559	1,482,227	9.67%
Restricted	225,083	292,206	-	-	225,083	292,206	-22.97%
Unrestricted	417,241	427,693	3,048	5,734	420,289	433,427	-3.03%
Total net assets	\$ 2,252,570	2,197,730	18,361	10,130	2,270,931	2,207,860	2.86%

The District's combined net assets increased by 2.86%, or \$63,071 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 22.97%, or \$67,123 compared to prior year. The decrease in restricted net assets is primarily the result of the decrease in the Capital Project Fund balance and the amount restricted for categorical funding in the General Fund.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- decreased 3.03%, or \$13,138 from the prior year. The decrease in unrestricted net assets is primarily the result of the increase in early retirement benefits and other postemployment benefits payable.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to June 30, 2011.

	Figure A-4 Changes in Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
	2012	2011	2012	2011	2012	2011	2011-12	
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 478,238	351,084	54,827	55,985	533,065	407,069		30.95%
Operating grants, contributions and restricted interest	175,817	242,650	45,455	50,043	221,272	292,693		-24.40%
Capital grants, contributions and restricted interest	24,615	25,000	12,675	-	37,290	25,000		49.16%
General revenues:								
Property tax	1,020,956	957,016	-	-	1,020,956	957,016		6.68%
Income surtax	99,179	74,553	-	-	99,179	74,553		33.03%
Statewide sales, services and use tax	179,532	168,814	-	-	179,532	168,814		6.35%
Unrestricted state grants	1,166,242	1,048,845	-	-	1,166,242	1,048,845		11.19%
Nonspecific program federal grants	708	71,678	-	-	708	71,678		-99.01%
Unrestricted investment earnings	995	1,144	2	6	997	1,150		-13.30%
Other general revenues	18,428	35,125	1,184	2,722	19,612	37,847		-48.18%
Insurance proceeds	-	-	465	-	465	-		100.00%
Transfers	(9,743)	(8,800)	9,743	8,800	-	-		0.00%
Total revenues and transfers	<u>3,154,967</u>	<u>2,967,109</u>	<u>124,351</u>	<u>117,556</u>	<u>3,279,318</u>	<u>3,084,665</u>		<u>6.31%</u>
Program expenses:								
Instructional	1,993,364	1,790,571	-	-	1,993,364	1,790,571		11.33%
Support services	913,116	918,260	-	-	913,116	918,260		-0.56%
Non-instructional programs	-	-	116,120	114,821	116,120	114,821		1.13%
Other expenses	193,647	158,583	-	-	193,647	158,583		22.11%
Total expenses	<u>3,100,127</u>	<u>2,867,414</u>	<u>116,120</u>	<u>114,821</u>	<u>3,216,247</u>	<u>2,982,235</u>		<u>7.85%</u>
Change in net assets	54,840	99,695	8,231	2,735	63,071	102,430		38.43%
Net assets beginning of year	<u>2,197,730</u>	<u>2,098,035</u>	<u>10,130</u>	<u>7,395</u>	<u>2,207,860</u>	<u>2,105,430</u>		<u>4.87%</u>
Net assets end of year	<u>\$ 2,252,570</u>	<u>2,197,730</u>	<u>18,361</u>	<u>10,130</u>	<u>2,270,931</u>	<u>2,207,860</u>		<u>2.86%</u>

Property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 78.16% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest accounted for 80.64% of business type activities revenue.

The District's total revenues were approximately \$3.28 million, of which approximately \$3.16 million was for governmental activities and approximately \$0.12 million was for business type activities.

As shown in figure A-4, the District as a whole experienced a 6.31% increase in revenues and a 7.85% increase in expenses.

## Governmental Activities

Revenues for governmental activities were \$3,154,967 and expenses were \$3,100,127.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 1,993,364	1,790,571	11.33%	1,467,687	1,328,789	10.45%
Support services	913,116	918,260	-0.56%	851,030	862,891	-1.37%
Other expenses	193,647	158,583	22.11%	102,740	57,000	80.25%
Totals	<u>\$ 3,100,127</u>	<u>2,867,414</u>	<u>8.12%</u>	<u>2,421,457</u>	<u>2,248,680</u>	<u>7.68%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$478,238.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$200,432.
- The net cost of governmental activities was financed with \$1,020,956 in property tax, \$99,179 of income surtax, \$179,532 in statewide sales, services and use tax, \$1,166,242 in unrestricted state grants, \$708 in nonspecific program federal grants, \$995 in interest income and \$8,685 in other revenues net of transfers.

## Business Type Activities

Revenues of the District's business type activities were \$124,351 and expenses were \$116,120. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, capital contributions, transfers in, investment income and insurance proceeds.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$810,260; an increase from last year's ending fund balances of \$797,645. The primary reason for the increase in combined fund balances in fiscal 2012 is due to an increase of the fund balance in the General Fund.

## Governmental Fund Highlights

- The District's General Fund balance increased from \$493,270 on June 30, 2011 to \$524,004 on June 30, 2012. The increase in the General Fund balance is primarily due to an increase in local and state revenues as compared to the previous year.

- The District's Capital Projects Fund balance decreased from \$172,771 on June 30, 2011 to \$136,277 on June 30, 2012. The decrease in fund balance was related to increased expenditures.

### Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$10,130 at June 30, 2011 to \$18,361 at June 30, 2012.

### BUDGETARY HIGHLIGHTS

The District's revenues were \$143,250 more than budgeted revenues, a variance of 4.57%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The District amended its budget during the year increasing expenditures by \$220,973.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2012, the District had invested \$1.97 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$362,324.

The original cost of the District's capital assets was \$4,054,813. Governmental funds account for \$3,993,090 with the remainder of \$61,723 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$141,472 at June 30, 2012, compared to \$12,233 reported at June 30, 2011. The increase was mostly the result of the new lights on the sports fields.

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 4,812	4,812	-	-	4,812	4,812	0.00%
Buildings	1,668,662	1,585,862	-	-	1,668,662	1,585,862	5.22%
Land improvements	141,472	12,233	-	-	141,472	12,233	1056.48%
Machinery and equipment	143,800	124,924	15,313	4,396	159,113	129,320	23.04%
Total	\$ 1,958,746	1,727,831	15,313	4,396	1,974,059	1,732,227	13.96%

## Long-Term Debt

At June 30, 2012, the District had \$608,263 in total long-term debt outstanding. This represents an increase of 44.40% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

During the year ended June 30, 2012, the District had outstanding QSCB bonds payable of \$250,000.

During the year ended June 30, 2012, the District entered into a capital lease on lighting equipment in the amount of \$98,500.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$150,583 at June 30, 2012.

The District had a net OPEB liability of outstanding of \$109,180 as of June 30, 2012.

	Figure A-7		
	Outstanding Long-Term Obligations		
	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-12
QSCB bonds	\$ 250,000	250,000	0.00%
Lighting lease	98,500	-	100.00%
Early retirement	150,583	85,467	76.19%
Net OPEB liability	109,180	85,767	27.30%
Totals	\$ 608,263	421,234	44.40%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherri Ruzek, Business Manager, Essex Community School District, 111 Forbes Street, Essex, Iowa, 51638.

ESSEX COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 858,826	3,448	862,274
Receivables:			
Property tax:			
Delinquent	16,627	-	16,627
Succeeding year	995,064	-	995,064
Income surtax	94,210	-	94,210
Accounts	25,539	-	25,539
Due from other governments	174,179	-	174,179
Inventories	-	873	873
Capital assets, net of accumulated depreciation	1,958,746	15,313	1,974,059
<b>Total assets</b>	<b>4,123,191</b>	<b>19,634</b>	<b>4,142,825</b>
<b>Liabilities</b>			
Accounts payable	52,185	-	52,185
Salaries and benefits payable	212,726	-	212,726
Accrued interest payable	2,383	-	2,383
Deferred revenue:			
Succeeding year property tax	995,064	-	995,064
Unearned revenue	-	1,273	1,273
Long-term liabilities:			
Portion due within one year:			
Capital lease payable	7,619	-	7,619
Early retirement payable	65,003	-	65,003
Portion due after one year:			
Capital lease payable	90,881	-	90,881
QSCB bonds payable	250,000	-	250,000
Early retirement payable	85,580	-	85,580
Net OPEB liability	109,180	-	109,180
<b>Total liabilities</b>	<b>1,870,621</b>	<b>1,273</b>	<b>1,871,894</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,610,246	15,313	1,625,559
Restricted for:			
Categorical funding	30,280	-	30,280
Student activities	30,545	-	30,545
Debt service	27,981	-	27,981
School infrastructure	115,749	-	115,749
Physical plant and equipment	20,528	-	20,528
Unrestricted	417,241	3,048	420,289
<b>Total net assets</b>	<b>\$ 2,252,570</b>	<b>18,361</b>	<b>2,270,931</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 1,393,099	272,084	21,457	-	(1,099,558)	-	(1,099,558)
Special	254,589	39,561	12,393	-	(202,635)	-	(202,635)
Other	345,676	153,602	26,580	-	(165,494)	-	(165,494)
	<u>1,993,364</u>	<u>465,247</u>	<u>60,430</u>	<u>-</u>	<u>(1,467,687)</u>	<u>-</u>	<u>(1,467,687)</u>
Support services:							
Student services	63,170	-	-	-	(63,170)	-	(63,170)
Instructional staff	120,545	-	24,129	-	(96,416)	-	(96,416)
Administration	376,300	12,991	-	-	(363,309)	-	(363,309)
Operation and maintenance of plant	204,714	-	-	24,615	(180,099)	-	(180,099)
Transportation	148,387	-	351	-	(148,036)	-	(148,036)
	<u>913,116</u>	<u>12,991</u>	<u>24,480</u>	<u>24,615</u>	<u>(851,030)</u>	<u>-</u>	<u>(851,030)</u>
Long-term debt interest	2,383	-	-	-	(2,383)	-	(2,383)
Other expenditures:							
AEA flowthrough	90,907	-	90,907	-	-	-	-
Depreciation(unallocated)*	100,357	-	-	-	(100,357)	-	(100,357)
	<u>191,264</u>	<u>-</u>	<u>90,907</u>	<u>-</u>	<u>(100,357)</u>	<u>-</u>	<u>(100,357)</u>
Total governmental activities	3,100,127	478,238	175,817	24,615	(2,421,457)	-	(2,421,457)
Business Type activities:							
Non-instructional programs:							
Nutrition services	116,120	54,827	45,455	12,675	-	(3,163)	(3,163)
Total	\$ 3,216,247	533,065	221,272	37,290	(2,421,457)	(3,163)	(2,424,620)
<b>General Revenues and Transfers:</b>							
General revenues:							
Property tax for:							
General purposes					\$ 997,738	-	997,738
Capital outlay					23,218	-	23,218
Income surtax					99,179	-	99,179
Statewide sales, services and use tax					179,532	-	179,532
Unrestricted state grants					1,166,242	-	1,166,242
Nonspecific program federal grants					708	-	708
Unrestricted investment earnings					995	2	997
Other general revenues					18,428	1,184	19,612
Insurance proceeds					-	465	465
Transfers					(9,743)	9,743	-
Total general revenues and transfers					<u>2,476,297</u>	<u>11,394</u>	<u>2,487,691</u>
Changes in net assets					54,840	8,231	63,071
Net assets beginning of year					<u>2,197,730</u>	<u>10,130</u>	<u>2,207,860</u>
Net assets end of year					<u>\$ 2,252,570</u>	<u>18,361</u>	<u>2,270,931</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 637,978	98,674	122,174	858,826
Receivables:				
Property tax				
Delinquent	15,191	376	1,060	16,627
Succeeding year	844,643	25,421	125,000	995,064
Income surtax	94,210	-	-	94,210
Accounts	225	-	25,314	25,539
Due from other governments	111,783	56,897	5,499	174,179
<b>Total assets</b>	<b>\$ 1,704,030</b>	<b>181,368</b>	<b>279,047</b>	<b>2,164,445</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 28,447	19,670	4,068	52,185
Salaries and benefits payable	212,726	-	-	212,726
Deferred revenue:				
Succeeding year property tax	844,643	25,421	125,000	995,064
Income surtax	94,210	-	-	94,210
<b>Total liabilities</b>	<b>1,180,026</b>	<b>45,091</b>	<b>129,068</b>	<b>1,354,185</b>
<b>Fund balances:</b>				
<b>Restricted for:</b>				
Categorical funding	30,280	-	-	30,280
Management levy purposes	-	-	91,885	91,885
Student activities	-	-	30,545	30,545
Debt service	-	-	27,981	27,981
School infrastructure	-	115,749	-	115,749
Physical plant and equipment	-	20,528	-	20,528
<b>Unassigned:</b>				
General	493,724	-	-	493,724
Student activities	-	-	(432)	(432)
<b>Total fund balances</b>	<b>524,004</b>	<b>136,277</b>	<b>149,979</b>	<b>810,260</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,704,030</b>	<b>181,368</b>	<b>279,047</b>	<b>2,164,445</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2012

<b>Total fund balances of governmental funds(page 20)</b>	\$	810,260
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,958,746
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		94,210
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(2,383)
Long-term liabilities, including QSCB bonds payable, capital leases, early retirement payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(608,263)</u>
<b>Net assets of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>2,252,570</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 1,031,249	202,750	64,946	1,298,945
Tuition	251,482	-	-	251,482
Other	92,261	20,387	157,669	270,317
State sources	1,264,082	-	-	1,264,082
Federal sources	74,921	4,241	-	79,162
Total revenues	<u>2,713,995</u>	<u>227,378</u>	<u>222,615</u>	<u>3,163,988</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,283,196	-	37,472	1,320,668
Special	252,318	-	-	252,318
Other	188,534	-	157,945	346,479
	<u>1,724,048</u>	<u>-</u>	<u>195,417</u>	<u>1,919,465</u>
Support services:				
Student	62,830	-	-	62,830
Instructional staff	107,556	14,289	-	121,845
Administration	367,668	-	4,553	372,221
Operation and maintenance of plant	171,385	113,565	10,170	295,120
Transportation	152,192	-	4,456	156,648
	<u>861,631</u>	<u>127,854</u>	<u>19,179</u>	<u>1,008,664</u>
Capital outlay	-	338,086	-	338,086
Other expenditures:				
AEA flowthrough	90,907	-	-	90,907
Total expenditures	<u>2,676,586</u>	<u>465,940</u>	<u>214,596</u>	<u>3,357,122</u>
Excess(Deficiency) of revenues over(under) expenditures	37,409	(238,562)	8,019	(193,134)
Other financing sources(uses):				
Proceeds from capital lease	-	98,500	-	98,500
Transfer in	2,818	18	13,442	16,278
Transfer out	(9,493)	(13,442)	(3,086)	(26,021)
Insurance proceeds	-	116,992	-	116,992
Total other financing sources(uses)	<u>(6,675)</u>	<u>202,068</u>	<u>10,356</u>	<u>205,749</u>
Net change in fund balances	30,734	(36,494)	18,375	12,615
Fund balances beginning of year	493,270	172,771	131,604	797,645
Fund balances end of year	<u>\$ 524,004</u>	<u>136,277</u>	<u>149,979</u>	<u>810,260</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds(page 22) \$ 12,615

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays, depreciation expense, and loss on disposal of assets in the current year, are as follows:

Capital outlay expenditures	\$ 592,220	
Depreciation expense	(360,566)	
Loss on disposal of capital assets	<u>(739)</u>	230,915

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 722

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

Early Retirement	(65,116)	
Other postemployment benefits	<u>(23,413)</u>	(88,529)

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. (98,500)

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

(2,383)

Changes in net assets of governmental activities(page 19) \$ 54,840

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 3,448
Inventories	873
Capital assets, net of accumulated depreciation	<u>15,313</u>
Total assets	<u>19,634</u>
Liabilities	
Unearned revenue	<u>1,273</u>
Total liabilities	<u>1,273</u>
Net assets	
Invested in capital assets	15,313
Unrestricted	<u>3,048</u>
Total net assets	<u><u>\$ 18,361</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 54,827
Miscellaneous	1,184
Total operating revenues	56,011
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	43,320
Benefits	6,661
Supplies	64,246
Depreciation	1,758
Other	135
Total operating expenses	116,120
Operating loss	(60,109)
Non-operating revenues:	
Insurance proceeds	465
State sources	1,024
Federal sources	44,431
Interest income	2
Total non-operating revenues	45,922
Net loss before other financing sources	(14,187)
Other financing sources:	
Transfer in	9,743
Contributed capital	12,675
Total other financing sources	22,418
Decrease in net assets	8,231
Net assets beginning of year	10,130
Net assets end of year	\$ 18,361

SEE NOTES TO FINANCIAL STATEMENTS.

## EXHIBIT I

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 54,813
Cash received from miscellaneous operating activities	1,184
Cash payments to employees for services	(49,981)
Cash payments to suppliers for goods or services	(55,782)
Net cash used by operating activities	(49,766)
Cash flows from non-capital financing activities:	
Decrease in interfund borrowing	100
Transfer from General Fund	9,493
Transfer from Management Fund	250
State grants received	1,024
Federal grants received	36,476
Net cash provided by non-capital financing activities	47,343
Cash flows from investing activities:	
Insurance proceeds	465
Interest on investments	2
Net cash provided by investing activities	467
Net decrease in cash and cash equivalents	(1,956)
Cash and cash equivalents at beginning of year	5,404
Cash and cash equivalents at end of year	\$ 3,448
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (60,109)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities consumed	7,955
Depreciation	1,758
Decrease in inventories	704
Decrease in accounts payable	(60)
Decrease in unearned revenue	(14)
Net cash used by operating activities	\$ (49,766)

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

During the year ended June 30, 2012, the District received \$7,955 of federal commodities.

During the year ended June 30, 2012, the Nutrition Fund received capital contributions in the amount of \$10,971 from the Capital Projects: Statewide Sales, Services and Use Tax Fund and \$1,704 from the Capital Projects: Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 45,699	2,320
Liabilities		
Due to other groups	-	2,320
Net assets		
Restricted for scholarships	20,000	-
Unrestricted	25,699	-
	<u>\$ 45,699</u>	<u>-</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Additions	
Local sources:	
Gifts and contributions	\$ 361
Interest income	360
Total additions	721
 Deductions	
Instruction:	
Scholarships awarded	2,050
 Change in net assets	(1,329)
 Net assets beginning of year	47,028
 Net assets end of year	\$ 45,699

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

The Essex Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Essex, Iowa, and the predominate agricultural territory in a portion of Page and Montgomery Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

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

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The District reports the following non-major proprietary fund:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

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

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

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

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

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures exceeded the amount budgeted in the support services function.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2012 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$410,872 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 13,442
School Nutrition	General	9,493
School Nutrition	Management Levy	250
General	Student Activity	2,818
Capital Projects: Physical Plant and Equipment Levy	Student Activity	18
Total		<u>\$ 26,021</u>

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

The transfer from the General Fund to the Nutrition Fund was for cash flow purposes (See comment II-Q-12).

The transfer from the Management Levy Fund to the Nutrition Fund was for the deductible on the food loss claim.

The transfer from the Student Activity Fund to the General Fund was closing the Elementary, Industrial Arts and Special Projects accounts in the Activity Fund and moving the money to the General Fund.

The transfer from Student Activity Fund to the Capital Projects: Physical Plant and Equipment Levy Fund was closing the Elementary Can Drive account and moving the money.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 4,812	-	-	4,812
Total capital assets not being depreciated	4,812	-	-	4,812
Capital assets being depreciated:				
Buildings	2,764,417	143,862	3,697	2,904,582
Land improvements	138,800	169,273	52,594	255,479
Machinery and equipment	549,132	279,085	-	828,217
Total capital assets being depreciated	3,452,349	592,220	56,291	3,988,278
Less accumulated depreciation for:				
Buildings	1,178,555	60,323	2,958	1,235,920
Land improvements	126,567	40,034	52,594	114,007
Machinery and equipment	424,208	260,209	-	684,417
Total accumulated depreciation	1,729,330	360,566	55,552	2,034,344
Total capital assets being depreciated, net	1,723,019	231,654	739	1,953,934
Governmental activities capital assets, net	\$ 1,727,831	231,654	739	1,958,746
<b>Business type activities:</b>				
Machinery and equipment	\$ 59,460	12,675	10,412	61,723
Less accumulated depreciation	55,064	1,758	10,412	46,410
Business type activities capital assets, net	\$ 4,396	10,917	-	15,313

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 109,790
Other	11,914
Support services:	
Instructional staff	17,915
Administration	1,813
Operation and maintenance of plant	4,875
Transportation	113,902
	<u>260,209</u>
Unallocated depreciation	100,357
Total governmental activities depreciation expense	<u>\$ 360,566</u>
Business type activities:	
Food services	<u>\$ 1,758</u>

**(5) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
QSCB bonds	\$ 250,000	-	-	250,000	-
Capital lease	-	98,500	-	98,500	7,619
Early retirement	85,467	81,000	15,884	150,583	65,003
Net OPEB liability	85,767	23,413	-	109,180	-
Total	\$ 421,234	202,913	15,884	608,263	72,622

Qualified School Construction Bonds

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

Capital Lease

During the year ended June 30, 2012, the District entered into a capital lease for the lightings for baseball and softball fields.

Year Ending June 30,	Capital Lease of January 13, 2012			
	Interest Rates	Principal	Interest	Total
2013	5.59%	\$ 7,619	5,504	13,123
2014	5.59	8,044	5,079	13,123
2015	5.59	8,494	4,629	13,123
2016	5.59	8,969	4,155	13,124
2017	5.59	9,470	3,653	13,123
2018-2022	5.59	55,904	9,711	65,615
Total		\$ 98,500	32,731	131,231

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be a tenured contracted teacher, must have completed fifteen years of continuous service to the District and be at least age fifty-five. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2012, totaled \$15,884. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a

publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$119,524, \$99,903, and \$94,154 respectively, equal to the required contributions for each year.

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

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

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 73,941
Interest on net OPEB obligation	2,144
Adjustment to annual required contribution	(5,985)
Annual OPEB cost	<u>70,100</u>
Contributions made	(46,687)
Increase in net OPEB obligation	<u>23,413</u>
Net OPEB obligation beginning of year	<u>85,767</u>
Net OPEB obligation end of year	<u><u>\$ 109,180</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$46,687 to the medical plan. Retired members eligible for the plan contributed \$0 or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

For Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$66,826	5.80%	\$62,953
2011	\$67,232	66.07%	\$85,767
2012	\$70,100	66.60%	\$109,180

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$428,899, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$428,899. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,131,173 and the ratio of the UAAL to covered payroll was 37.92%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual health cost trend is 6%.

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

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

**(8) Risk Management**

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

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2012 were \$316,993.

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

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$90,907 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Categorical Funding**

The District's ending restricted balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Programs</u>	<u>Amount</u>
Teacher Salary Supplement	\$ 3,088
Beginning Teacher Mentoring and Induction Program	660
Gifted and Talented	10,503
Market Factor	780
Professional Development for Model Core Curriculum	1,410
Professional Development	13,839
	<hr/>
Total	\$ 30,280

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, the District exceeded the amended budgeted amounts in the support services functional area.

**(12) Deficit Balances**

At June 30, 2012, the District had one account within the Student Activity Fund that had a deficit unassigned balance of \$432.

Essex Community School District

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 1,820,744	56,478	1,877,222	1,652,869	1,652,869	224,353
State sources	1,264,082	1,024	1,265,106	1,300,102	1,300,102	(34,996)
Federal sources	79,162	44,431	123,593	169,700	169,700	(46,107)
Total revenues	3,163,988	101,933	3,265,921	3,122,671	3,122,671	143,250
Expenditures/Expenses:						
Instruction	1,919,465	-	1,919,465	1,976,282	1,976,282	56,817
Support services	1,008,664	-	1,008,664	943,000	943,000	(65,664)
Non-instructional programs	-	116,120	116,120	137,550	137,550	21,430
Other expenditures	428,993	-	428,993	269,027	490,000	61,007
Total expenditures/expenses	3,357,122	116,120	3,473,242	3,325,859	3,546,832	73,590
Excess(Deficiency) of revenues over(under) expenditures/expenses	(193,134)	(14,187)	(207,321)	(203,188)	(424,161)	216,840
Other financing sources, net	205,749	22,418	228,167	12,000	12,000	216,167
Excess(Deficiency) of revenues and other financing sources over (under) expenditures/expenses	12,615	8,231	20,846	(191,188)	(412,161)	433,007
Balance beginning of year	797,645	10,130	807,775	191,591	191,591	616,184
Balance end of year	\$ 810,260	18,361	828,621	403	(220,570)	1,049,191

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$220,973

During the year ended June 30, 2012, expenditures in the support services function exceeded the amounts budgeted.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	-	\$ 515,752	515,752	0.00%	\$ 1,195,497	43.14%
2011	July 1, 2009	-	490,695	490,695	0.00%	1,208,653	40.60%
2012	July 1, 2009	-	428,899	428,899	0.00%	1,131,173	37.92%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Management Levy	Student Activity	Total		
<b>Assets</b>					
Cash and pooled investments	\$ 90,825	3,368	94,193	27,981	122,174
Receivables:					
Property tax:					
Delinquent	1,060	-	1,060	-	1,060
Succeeding year	125,000	-	125,000	-	125,000
Accounts	-	25,314	25,314	-	25,314
Due from other governments	-	5,499	5,499	-	5,499
<b>Total assets</b>	<b>\$ 216,885</b>	<b>34,181</b>	<b>251,066</b>	<b>27,981</b>	<b>279,047</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ -	4,068	4,068	-	4,068
Deferred revenue:					
Succeeding year property tax	125,000	-	125,000	-	125,000
<b>Total liabilities</b>	<b>125,000</b>	<b>4,068</b>	<b>129,068</b>	<b>-</b>	<b>129,068</b>
Fund balances:					
Restricted for:					
Management levy purposes	91,885	-	91,885	-	91,885
Student activity	-	30,545	30,545	-	30,545
Debt service	-	-	-	27,981	27,981
Unassigned	-	(432)	(432)	-	(432)
<b>Total fund balances</b>	<b>91,885</b>	<b>30,113</b>	<b>121,998</b>	<b>27,981</b>	<b>149,979</b>
<b>Total liabilities and fund balances</b>	<b>\$ 216,885</b>	<b>34,181</b>	<b>251,066</b>	<b>27,981</b>	<b>279,047</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2012

	Special Revenue			Debt Service	Total Other Nonmajor Government Funds
	Management Levy	Student Activity	Total		
Revenues:					
Local sources:					
Local tax	\$ 64,946	-	64,946	-	64,946
Other	3,478	153,432	156,910	759	157,669
Total revenues	68,424	153,432	221,856	759	222,615
Expenditures:					
Current:					
Instruction:					
Regular	37,472	-	37,472	-	37,472
Other	-	157,945	157,945	-	157,945
Support services:					
Administration	4,553	-	4,553	-	4,553
Operation and maintenance of plant	10,170	-	10,170	-	10,170
Transportation	4,456	-	4,456	-	4,456
Total expenditures	56,651	157,945	214,596	-	214,596
Excess of revenues over expenditures	11,773	(4,513)	7,260	759	8,019
Other financing sources(uses):					
Transfer in	-	-	-	13,442	13,442
Transfer out	(250)	(2,836)	(3,086)	-	(3,086)
Total other financing sources(uses)	(250)	(2,836)	(3,086)	13,442	10,356
Net change in fund balances	11,523	(7,349)	4,174	14,201	18,375
Fund balances beginning of year	80,362	37,462	117,824	13,780	131,604
Fund balances end of year	\$ 91,885	30,113	121,998	27,981	149,979

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant & Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 82,763	15,911	98,674
Receivables:			
Property tax:			
Delinquent	-	376	376
Succeeding year	-	25,421	25,421
Due from other governments	52,656	4,241	56,897
<b>Total assets</b>	<b>\$ 135,419</b>	<b>45,949</b>	<b>181,368</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 19,670	-	19,670
Deferred revenue:			
Succeeding year property tax	-	25,421	25,421
<b>Total liabilities</b>	<b>19,670</b>	<b>25,421</b>	<b>45,091</b>
<b>Fund balances:</b>			
<b>Restricted for:</b>			
School infrastructure	115,749	-	115,749
Physical plant and equipment	-	20,528	20,528
<b>Total fund balances</b>	<b>115,749</b>	<b>20,528</b>	<b>136,277</b>
<b>Total liabilities and fund balances</b>	<b>\$ 135,419</b>	<b>45,949</b>	<b>181,368</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 179,532	23,218	202,750
Other	13	20,374	20,387
Federal sources	-	4,241	4,241
Total revenues	<u>179,545</u>	<u>47,833</u>	<u>227,378</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	1,379	12,910	14,289
Operation and maintenance of plant	12,642	100,923	113,565
Capital outlay	291,983	46,103	338,086
Total expenditures	<u>306,004</u>	<u>159,936</u>	<u>465,940</u>
Deficiency of revenues under expenditures	(126,459)	(112,103)	(238,562)
Other financing sources(uses):			
Transfer in	-	18	18
Transfer out	(13,442)	-	(13,442)
Proceeds from capital lease	98,500	-	98,500
Insurance proceeds	-	116,992	116,992
Total other financing sources(uses)	<u>85,058</u>	<u>117,010</u>	<u>202,068</u>
Net change in fund balances	(41,401)	4,907	(36,494)
Fund balances beginning of year	<u>157,150</u>	<u>15,621</u>	<u>172,771</u>
Fund balances end of year	<u>\$ 115,749</u>	<u>20,528</u>	<u>136,277</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund and Intrafund Transfers	Balance End of Year
Speech	\$ (121)	-	-	121	-
Drama	3,201	620	443	(121)	3,257
Instrumental music	(56)	517	357	-	104
Athletics	2,711	40,954	40,424	-	3,241
JH VB tournament	84	-	-	-	84
Football fund	636	2,250	1,469	-	1,417
HS basketball	62	-	-	-	62
Softball girls	492	1,456	808	-	1,140
Elementary can drive	18	-	-	(18)	-
Class of 2010	633	-	-	-	633
Class of 2011	1,129	-	198	(931)	-
Class of 2012	1,520	21,562	23,200	431	313
Class of 2013	31	13,433	11,971	-	1,493
Class of 2014	305	-	-	-	305
Class of 2015	76	180	33	-	223
Class of 2016	17	299	131	-	185
Class of 2017	-	120	53	-	67
Elementary Playground Equipment	5,838	298	6,136	-	-
School mall fund	3,951	-	3,951	-	-
Pep club	497	1,339	1,066	-	770
School booster fund balance	-	57,960	54,723	-	3,237
E-Stars	1,107	382	986	-	503
GAB fund	90	-	85	-	5
Safety patrol	17	-	-	-	17
Claire McKinney music fund	416	-	-	-	416
Annual	7,722	6,712	5,737	-	8,697
Elementary	412	-	-	(412)	-
Industrial arts	2,280	15	-	(2,295)	-
Media center	673	1,200	1,873	-	-
Special projects	111	-	-	(111)	-
National honor society	111	135	45	250	451
Concession equipment	-	362	-	-	362
Project class	123	-	-	-	123
Student council	3,376	2,765	2,951	250	3,440
Dance team	-	873	1,305	-	(432)
<b>Total</b>	<b>\$ 37,462</b>	<b>153,432</b>	<b>157,945</b>	<b>(2,836)</b>	<b>30,113</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
<b>Assets</b>						
Cash and pooled investments	\$ 990	21,571	19,445	3,248	445	45,699
<b>Liabilities</b>						
	-	-	-	-	-	-
<b>Net Assets</b>						
Restricted for scholarships	-	20,000	-	-	-	20,000
Unrestricted	990	1,571	19,445	3,248	445	25,699
	\$ 990	21,571	19,445	3,248	445	45,699

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2012

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:						
Gifts and contributions	\$ -	-	-	-	361	361
Interest	-	160	160	40	-	360
	-	160	160	40	361	721
Deductions:						
Instruction:						
Scholarships awarded	-	300	450	1,000	300	2,050
Change in net assets	-	(140)	(290)	(960)	61	(1,329)
Net assets beginning of year	990	21,711	19,735	4,208	384	47,028
Net assets end of year	\$ 990	21,571	19,445	3,248	445	45,699

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2012

	Beginning Balance	Increases	Decreases	Ending Balance
<b>JUST HELP KIDS</b>				
Assets:				
Cash and other investments	\$ 952	-	152	800
Liabilities:				
Due to other groups	\$ 952	-	152	800
<b>NURSE FUND</b>				
Assets:				
Cash and other investments	\$ 812	3,164	2,456	1,520
Liabilities:				
Due to other groups	\$ 812	3,164	2,456	1,520
<b>TOTAL</b>				
Cash and other investments	\$ 1,764	3,164	2,608	2,320
Liabilities:				
Due to other groups	\$ 1,764	3,164	2,608	2,320

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis								
	Years Ended June 30								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 1,298,945	1,220,074	1,182,511	1,161,837	1,055,988	1,082,481	1,088,623	1,059,879	1,162,114
Tuition	251,482	190,737	137,499	144,879	172,999	169,071	133,075	121,086	153,736
Other	270,317	202,236	139,083	186,817	188,003	216,450	254,312	176,562	143,036
Intermediate sources	-	-	-	2,000	2,459	-	-	3,174	-
State sources	1,264,082	1,180,368	1,031,916	1,423,390	1,354,443	1,281,715	1,121,983	1,038,057	1,060,391
Federal sources	79,162	202,185	227,646	121,276	79,855	88,941	96,413	95,460	108,576
Total	<u>\$ 3,163,988</u>	<u>2,995,600</u>	<u>2,718,655</u>	<u>3,040,199</u>	<u>2,853,747</u>	<u>2,838,658</u>	<u>2,694,406</u>	<u>2,494,218</u>	<u>2,627,853</u>
Expenditures:									
Instruction:									
Regular	\$ 1,320,668	1,253,384	1,238,190	1,422,297	1,360,453	1,189,956	1,117,705	1,094,300	1,023,146
Special	252,318	253,096	229,700	218,744	189,187	139,147	134,904	138,480	167,814
Other	346,479	279,417	275,431	184,576	186,324	247,660	245,153	212,114	184,216
Support services:									
Student	62,830	39,006	68,166	91,984	90,473	82,955	69,713	42,331	24,112
Instructional staff	121,845	112,915	52,774	53,447	59,012	86,405	51,631	63,508	34,772
Administration	372,221	353,477	369,840	358,304	339,246	340,349	303,500	284,193	253,979
Operation and maintenance of plant	295,120	199,914	182,072	195,571	208,738	213,757	184,159	155,805	139,977
Transportation	156,648	113,782	106,127	90,669	109,306	114,733	94,646	77,486	97,851
Capital outlay	338,086	161,552	374,723	196,903	47,542	71,672	154,069	117,703	38,705
Long-term debt:									
Principal	-	-	-	100,000	160,000	160,000	155,000	170,127	154,251
Interest and other charges	-	-	-	3,700	8,660	13,140	16,937	21,394	24,215
Other expenditures:									
AEA flowthrough	90,907	101,583	100,586	96,514	87,568	84,149	74,390	78,350	73,674
Total	<u>\$ 3,357,122</u>	<u>2,868,126</u>	<u>2,997,609</u>	<u>3,012,709</u>	<u>2,846,509</u>	<u>2,743,923</u>	<u>2,601,807</u>	<u>2,455,791</u>	<u>2,216,712</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
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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 of the  
Essex Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 21, 2013. 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

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

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-12 through I-D-12 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2013

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted

**INTERNAL CONTROL DEFICIENCIES:**

I-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. Also vouchers are processed, disbursements are recorded and checks are prepared by the same person. We also noted that one individual has the ability to modify pay rates, process the payroll and generate payroll checks and direct deposits.

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

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

Conclusion - Response accepted.

I-B-12 Gate Admissions - It was noted during the audit that the District currently pays an outside entity "Essex After Prom" to provide gate attendants for District performances and athletic events without any oversight by District personnel. Essex After Prom does not use a pre-numbered ticket system and controls the gate cash boxes from the time they are picked up before the event until they are delivered to the night depository at the bank.

Recommendation - The District should have procedures established for handling cash for all activity events and communicate the policies and procedures to the individuals involved. The Board would approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a) Cash or change boxes should be established with a specified amount.
- b) The District should use pre-numbered tickets.
- c) Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d) At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash
- e) A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.

- f) The cash collection should be required to be taken to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day.
- g) A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- h) District administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - Will proceed as stated above.

Conclusion - Response accepted.

I-C-12 Supporting Documentation - We noted during our audit that one out of twenty nine invoices selected for testing in the General Fund was paid without any supporting invoice or other documentation to support the payment.

Recommendation - The District should review its procedures to ensure that all payments have supporting documentation to support the purchase.

Response - Payment will only be made with the proper supporting documentation.

Conclusion - Response accepted.

I-D-12 Checks Written as Bearer Paper - We noted during our audit that the District is writing checks to the bank which are later cashed at that bank for startup money at District events.

Recommendation - Checks made out to the bank alone are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. A better practice would be to make the checks payable to the custodian who is taking the check to the bank.

Response - The checks had the bank name on line one and the person cashing the check was listed on line two. These are both listed on line one now.

Conclusion - Response accepted.

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

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

II-A-12 Certified Budget - District disbursements for the year ended June 30, 2012 exceeded the amount budgeted in the support services function.

Recommendation - The 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 - The budget was amended, however, not to the extent needed. The expenses will be monitored to avoid exceeding budgeted amounts.

Conclusion - Response accepted.

II-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-12 Business Transactions - Business transactions between the District and District employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Charles Humphrey, Transportation Director Owns construction company	Purchased Services	\$900

In accordance with the Attorney General's opinion dated July 2, 1990 the above transaction with Charles Humphrey does not appear to represent a conflict of interest.

II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-12 Supplementary Weighting - We noted supplementary weighting data certified to the Department of Education was overstated by 0.01 students.

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

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

Conclusion - Response accepted.

- II-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-K-12 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 157,150
Revenues:		
Sales tax revenues	\$ 179,532	
Capital lease proceeds	98,500	
Other local revenues	13	278,045
		435,195
Expenditures/transfers out:		
School infrastructure construction	\$ 291,983	
Equipment	12,642	
Other	1,379	
Transfers to other funds:		
Debt service fund	13,442	319,446
		319,446
Ending Balance		\$ 115,749

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

- II-M-12 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

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

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

Conclusion - Response accepted.

- II-N-12 Financial Condition - We noted during our audit that the Student Activity Fund included one account with a negative balance of \$432.

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

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

Conclusion - Response accepted.

II-O-12 Capital Lease - We noted during our audit the Superintendent and Board Secretary signed the capital lease with MUSCO finance for the athletic lighting project. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

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

Response - Policy was reviewed with these employees and they will not sign and enter into contracts on behalf of the school.

Conclusion - Response accepted.

II-P-12 Student Activity Fund - In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the co-curricular and extra-curricular activities offered as a part of the education program for students. We noted a prior year comment regarding the leftover balance of the Class of 2010 account recommending the District close the account within the Student Activity Fund. The District actually transferred the remaining funds to Capital Projects: Physical Plant and Equipment Levy Fund.

Recommendation - According to Chapter 298A, "upon dissolution of such activity, such as a graduating class...the surplus must be used to support other student activities in the student activity fund". These funds should be returned to the Student Activity fund and be properly disseminated.

Response - The amount has been returned to the Class of 2010 account to be properly redistributed.

Conclusion - Response accepted.

II-Q-12 Nutrition Fund Transfers - We noted a permanent transfer of \$9,493 from the General Fund to the School Nutrition Fund to cover cash shortages. Districts cannot transfer money from the General Fund to the School Nutrition Fund without permission from the School Budget Review Committee.

Recommendation - The District should contact the School Budget Review Committee and the Iowa Department of Education to resolve the matter.

Response - We will consult with the Department of Education to determine our financial options with regard to transfers and the Nutrition Fund.

Conclusion - Response accepted.