

**Northeast Community School District
Goose Lake, Iowa**

Financial Report
Year Ended June 30, 2012

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Northeast Community School District

Officials

Year Ended June 30, 2012

Name	Title	Term Expires
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Board of Education

Charles Corr	President	2015
Mark Neblung	Vice President	2013
Andy Fredrichsen	Board Member	2013
Richard Krogmann	Board Member	2015
William Costello	Board Member	2015

School Officials

Jim Cox	Superintendent
Tina Bartels	District Secretary/Treasurer/ Business Manager
Ahlers & Cooney, P.C.	Attorney

Independent Auditor's Report

To the Board of Education
Northeast Community School District
Goose Lake, Iowa

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013 on our consideration of the Northeast 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, and Schedule of Funding Progress for the Retiree Health Plan on pages 3 through 12 and 40 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements and other schedules listed in the table of contents, as well as the accompanying schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget A-133, *Audits of States, Local Governments and Nonprofit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information for fiscal years 2012 and 2011, of which 2011 is not presented in the accompanying financial statements, 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 the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements for the years ended June 30, 2012 and 2011 taken as a whole.

The District's financial statements for the years ended June 30, 2010 through 2004, which are not presented in the accompanying financial statements, were audited by other auditors, whose report thereon dated March 22, 2011, expressed unqualified opinions on the financial statements. Their report on the Schedule of Revenues By Source and Expenditures By Function for the years ended June 30, 2010 through 2004 stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2010 through 2004 taken as a whole.

Bohnsack & Frommelt LLP

Overland Park, Kansas
February 21, 2013

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

Northeast 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.

Financial Highlights

- General fund revenues increased from \$6,916,152 in fiscal year 2011 to \$7,715,163 in fiscal year 2012. General fund expenditures increased from \$6,534,666 in fiscal year 2011 to \$7,271,226 in fiscal year 2012. This resulted in an increase in the District's General fund balance from \$1,258,113 to \$1,706,731. This represents a 36% increase from the prior year.
- As of June 30, 2012, the District's governmental funds reported combined ending fund balances of \$2,143,168, a decrease of \$603,325 in comparison with 2011. Of the total combined fund balance, \$1,605,868 represents unassigned fund balance. As of June 30, 2011, the District's governmental funds reported combined ending fund balances of \$2,746,493, a decrease of \$1,581,461 in comparison with 2010. Of the total combined fund balance for fiscal year 2011, \$1,099,737 represented unassigned fund balance.
- The District showed an increase in net assets of \$1,702,761 during the year ended June 30, 2012.

Using this Annual Report

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

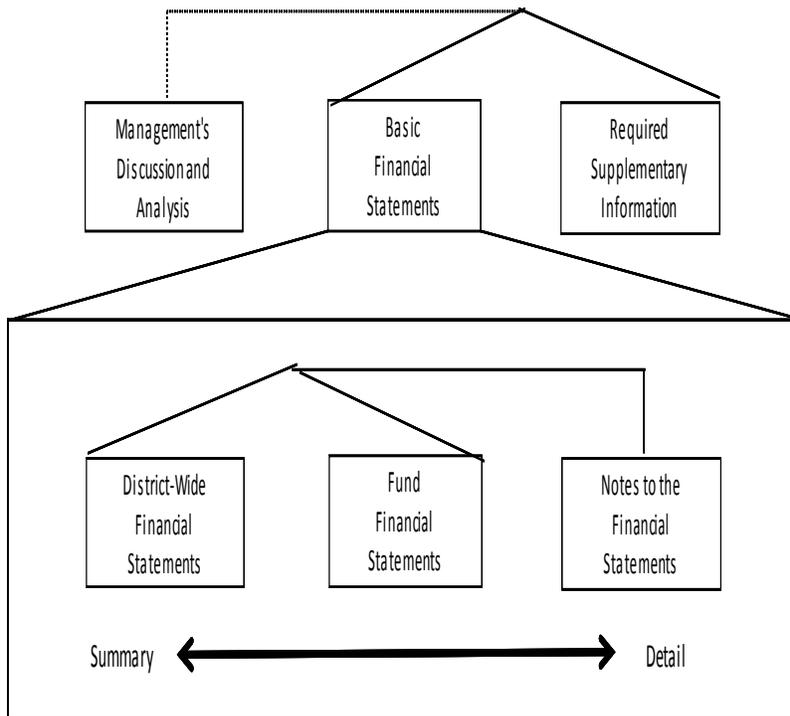
- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast 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 Northeast Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.
- Other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefitting the District.

Northeast Community School District

**Management's Discussion and Analysis
Year Ended June 30, 2012**

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

Figure A-1
Northeast Community School District Annual Financial Report



Northeast Community School District

**Management’s Discussion and Analysis
Year Ended June 30, 2012**

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: school nutrition and internal service fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs, reunion moneys and funds for District employee purchases of pop, etc.
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
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 the 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

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

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 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 financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional nonfinancial factors, such as changes in the District's property tax based 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 taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help it 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.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

The District has two 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. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The District's major governmental funds for fiscal year 2012 were the General Fund, Capital Projects Fund, and Debt Service Fund. The nonmajor governmental funds include two Special Revenue Funds (the Management Fund and Student Activity Fund). The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business-type activities but provides 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 proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

The District does not have any fiduciary funds. 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 as of June 30, 2012 compared to June 30, 2011.

Figure A-3 Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Current and other assets	\$ 7,092,559	\$ 5,673,809	\$ 136,827	\$ 138,213	\$ 7,229,386	\$ 5,812,022
Capital assets	9,827,571	11,845,338	62,146	96,906	9,889,717	11,942,244
Total assets	16,920,130	17,519,147	198,973	235,119	17,119,103	17,754,266
Long-term liabilities	4,756,911	4,399,412	1,089	1,819	4,758,000	4,401,231
Other liabilities	3,941,838	3,228,861	3,650	5,798	3,945,488	3,234,659
Total liabilities	8,698,749	7,628,273	4,739	7,617	8,703,488	7,635,890
Net assets:						
Invested in capital assets, net of related debt	5,295,571	7,603,338	62,146	96,906	5,357,717	7,700,244
Restricted	1,646,756	605,717	-	-	1,646,756	605,717
Unrestricted	1,279,054	1,681,819	132,088	130,596	1,411,142	1,812,415
Total net assets	\$ 8,221,381	\$ 9,890,874	\$ 194,234	\$ 227,502	\$ 8,415,615	\$ 10,118,376

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

The District's combined net assets as of June 30, 2012 grew by \$1,702,761 (20.2 percent) over the June 30, 2011 combined net assets. Net assets in the governmental activities grew by \$1,669,493 (20.3 percent). The net assets of the District's business-type activities grew by \$33,268 (17.1 percent).

The major factor for the increase in net assets of the District was the construction of the fine arts building, which represents a significant additional asset for the District.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased by \$1,041,039 or 63.2 percent from the prior year. The decrease was primarily a result of spending the bond proceeds and the Hazard Mitigation Program for the construction of the Fine Arts Building and Auditorium.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements) increased by \$401,273 or 28.4percent.

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

Figure A-4 Changes in Net Assets From Operating Results

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Revenues:						
Program revenues:						
Charges for services	\$ 1,836,108	\$ 2,622,193	\$ 180,293	\$ 233,045	\$ 2,016,401	\$ 2,855,238
Operating grants and contributions	946,845	922,500	145,258	179,836	1,092,103	1,102,336
Capital grants and contributions	2,305,753	277,635	-	-	2,305,753	277,635
General revenues:						
Property taxes	2,353,675	2,441,666	-	-	2,353,675	2,441,666
Income surtax	251,554	238,707	-	-	251,554	238,707
State foundation aid	2,086,216	2,287,656	-	-	2,086,216	2,287,656
Statewide sales and services tax	487,193	456,149	-	-	487,193	456,149
Other	151,608	48,911	915	1,103	152,523	50,014
Total revenues	10,418,952	9,295,417	326,466	413,984	10,745,418	9,709,401
Expenses:						
Instruction	4,548,770	4,921,782	-	-	4,548,770	4,921,782
Support services	2,278,308	2,097,849	24,186	15,527	2,302,494	2,113,376
Noninstructional programs	2,145	519	296,518	396,170	298,663	396,689
Other	512,095	574,793	-	-	512,095	574,793
Total expenses	7,341,318	7,594,943	320,704	411,697	7,662,022	8,006,640
Transfers	-	(30,981)	-	30,981	-	-
Increase (decrease) in net assets	\$ 3,077,634	\$ 1,669,493	\$ 5,762	\$ 33,268	\$ 3,083,396	\$ 1,702,761

In 2011-12, local taxes (property taxes and statewide sales and services tax) and state foundation aid accounted for 54.5 percent of the revenue from governmental activities while charges for services and operating grants and contributions accounted for 99.7 percent of the revenue from business-type activities.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

The District's expenses primarily relate to instructional and support services which account for 87.9 percent of the total expenses in fiscal year 2012.

Total revenue for the District decreased by \$1,036,017 (9.6 percent) in the fiscal year ended June 30, 2012. The most significant revenue category changes were in capital grants and contributions. Capital grants and contributions decreased \$2,028,118 for the construction of the Fine Arts Building and Auditorium under the Hazard Mitigation Program.

Total District expenses increased by 4.5 percent in 2011-12. The District's enrollment continued to grow in 2011-12 as its certified enrollment was up by 97 students over 2010-11.

Governmental Activities

Revenue for the District's governmental activities in 2011-2012 decreased by \$1,123,535 (10.8 percent) from the previous year, while total expenses increased by \$253,625 (3.5 percent). Governmental activities net assets as of June 30, 2012 increased by \$1,669,493 (20.3 percent) over the June 30, 2011 balance.

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

Figure A-5 Net Cost of Governmental Activities

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	June 30, 2011	June 30, 2012	Change June 30, 2012	June 30, 2011	June 30, 2012	Change June 30, 2012
Instruction	\$ 4,548,770	\$ 4,921,782	8.20%	\$ 2,029,910	\$ 1,677,006	-17.4%
Support services	2,278,308	2,097,849	-7.92%	2,230,977	1,712,949	-23.2%
Noninstructional	2,145	519	-75.80%	2,145	519	-75.8%
Other	512,095	574,793	12.24%	(2,010,420)	382,141	-119.0%
	<u>\$ 7,341,318</u>	<u>\$ 7,594,943</u>	3.45%	<u>\$ 2,252,612</u>	<u>\$ 3,772,615</u>	67.5%

For the year ended June 30, 2012:

- The cost financed by the users of the District's programs was \$2,622,193.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$1,200,135.
- The net cost of governmental activities was financed with \$2,441,666 in property taxes, \$2,287,656 of unrestricted state grants, \$456,149 in statewide sales and services tax revenue, \$238,707 in income surtax revenue, \$35,789 in investment earnings and \$13,122 in miscellaneous revenues.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

Business-Type Activities

Revenues of the District's business-type activities were \$413,984 and expenses were \$411,697. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Individual Fund Analysis

As previously noted, the Northeast 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 \$2,143,168, which is below last year's ending fund balances of \$2,746,493. The primary reason for the decrease in combined fund balances at the end of fiscal 2012 is due to the decrease in the cash balance of the Capital Projects Fund of the District, which occurred because of significant payments being made during the year for capital projects.

Governmental Fund Highlights

- The fund balance in the District's General Fund increased by \$448,618 from \$1,258,113 as of June 30, 2011 to \$1,706,731 as of June 30, 2012. The increase is mainly due to increases in tuition revenues while maintaining expenditures.
- The fund balance in the Capital Projects Fund decreased by \$1,176,130 (102 percent) during 2011-12. This decrease was mainly due to payments made during the fiscal year for the cafeteria remodel and other projects.
- The fund balance of the Debt Service Fund increased \$190,323 from \$213,290 as of June 30, 2011 to \$403,613 as of June 30, 2012. The increase is mainly due to the \$177,537 annual transfer from the Capital Projects Fund to the debt service reserve as required by the bonds.

Proprietary Fund Highlights

The District's business-type activities did well financially during the year. The School Nutrition Fund net assets increased from \$194,234 as of June 30, 2011 to \$227,502 as of June 30, 2012, representing a 17 percent increase. The increase was mainly due to increases in charges for services.

Budgetary Highlights

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

In accordance with the Code of Iowa, the Board of Education annual adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District uses the GAAP (Generally Accepted Accounting Principles) method of accounting for budgeting purposes

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

Iowa law requires that actual spending in each functional area of the budget does not exceed the amount budgeted to be spent in that functional area at any time during the fiscal year. 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 budget was not amended during the 2011-2012 school year.

The District's revenues were approximately \$1.6 million more than budgeted revenues. The District received more in federal and local sources that originally anticipated. The District's expenditures were approximately \$3 million less than budgeted.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2011-12 fiscal year, the District had invested \$11,942,244 (net of accumulated depreciation of \$6,438,245) in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. (See Figure A-6). This amount represents a net increase of \$2,052,527 or 21 percent from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year was \$488,257.

Figure A-6 Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
Land	\$ 202,905	\$ 202,905	\$ -	\$ -	\$ 202,905	\$ 202,905
Buildings	3,811,676	10,729,150	-	30,361	3,811,676	10,759,511
Improvements other than buildings	729,968	672,153	-	-	729,968	672,153
Furniture and equipment	381,806	241,130	62,146	66,545	443,952	307,675
Construction in progress	4,701,216	-	-	-	4,701,216	-
Total	\$ 9,827,571	\$ 11,845,338	\$ 62,146	\$ 96,906	\$ 9,889,717	\$ 11,942,244

The increase is mainly due to completion of the Fine Arts Auditorium and renovation of the high school cafeteria during the fiscal year.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2012

Long-Term Liabilities

As of June 30, 2012, the District had \$4,401,231 in general obligation and other long-term debt outstanding. This represents a decrease of \$356,769 or 7.5% from the prior year. See Figure A-7 below. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7 Outstanding Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total School District	
	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	June 30, 2012
General obligation bonds	\$ 1,230,000	\$ 940,000	\$ -	\$ -	\$ 1,230,000	\$ 940,000
Qualified school construction bonds	3,302,000	3,302,000	-	-	3,302,000	3,302,000
Early retirement	153,428	37,965	-	-	153,428	37,965
Net OPEB liability	71,483	119,447	1,089	1,819	72,572	121,266
Total	\$ 4,756,911	\$ 4,399,412	\$ 1,089	\$ 1,819	\$ 4,758,000	\$ 4,401,231

Economic Factors Bearing on the District's Future

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

- Continued budget concerns at the state level will likely affect the District in the next several years.
- The District has utilized American Reinvestment and Recovery Act funding to backfill reductions in state funding. As this funding has begun to run out in the 2011-2012 fiscal year, other revenue sources will need to be identified in order to avoid negative budget implications.
- The creation of a new school district in the area will most likely impact the whole-grade sharing revenue the District had anticipated for the next three years.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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 Tina Bartels, Business Manager, Northeast Community School District, P.O. Box 66, Goose Lake, Iowa 52750.

Northeast Community School District

**Statement of Net Assets
June 30, 2012**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,738,904	\$ 131,237	\$ 1,870,141
Receivables:			
Property tax:			
Current year	29,692	-	29,692
Succeeding year	2,493,281	-	2,493,281
Income surtax	238,562	155	238,717
Due from other governments	803,905	-	803,905
Inventories	-	6,821	6,821
Restricted cash	369,465	-	369,465
Capital assets:			
Nondepreciable	202,905	-	202,905
Depreciable, net	11,642,433	96,906	11,739,339
Total assets	17,519,147	235,119	17,754,266
Liabilities			
Accounts payable	77,580	632	78,212
Salaries and benefits payable	651,572	-	651,572
Accrued interest payable	5,199	-	5,199
Unearned revenue:			
Succeeding year property tax	2,493,281	-	2,493,281
Other	1,229	5,166	6,395
Long-term liabilities:			
Portion due within one year:			
Early retirement	37,965	-	37,965
General obligation bonds	300,000	-	300,000
Portion due after one year:			
General obligation bonds	640,000	-	640,000
Qualified school construction bonds	3,302,000	-	3,302,000
Net OPEB liability	119,447	1,819	121,266
Total liabilities	7,628,273	7,617	7,635,890
Net Assets			
Invested in capital assets, net of related debt	7,603,338	96,906	7,700,244
Restricted for:			
Categorical funding	72,186	-	72,186
Debt service	403,613	-	403,613
Management levy	2,376	-	2,376
Student activities	59,125	-	59,125
School infrastructure	68,417	-	68,417
Unrestricted	1,681,819	130,596	1,812,415
Total net assets	\$ 9,890,874	\$ 227,502	\$ 10,118,376

See Notes to Financial Statements.

Northeast Community School District

Statement of Activities Year Ended June 30, 2012

Functions/Programs	Expenses
Governmental activities:	
Instruction:	
Regular instruction	\$ 3,109,643
Special instruction	865,793
Other	946,346
	<u>4,921,782</u>
Support services:	
Student services	357,757
Instructional staff services	182,879
Administration services	874,486
Operation and maintenance of plant services	155,246
Transportation services	527,481
	<u>2,097,849</u>
Noninstructional programs	<u>519</u>
Other expenditures:	
Long term debt interest	39,186
AEA flowthrough	192,652
Depreciation (unallocated) *	342,955
	<u>574,793</u>
Total governmental activities	<u>7,594,943</u>
Business-Type Activities:	
Support services:	
Administration services	11,329
Operation and maintenance of plant services	4,198
	<u>15,527</u>
Noninstructional programs, food service operations	<u>396,170</u>
Total business-type activities	<u>411,697</u>
Total	<u>\$ 8,006,640</u>
General revenues and transfers:	
General revenues:	
Property tax levied for:	
General purposes	
Capital outlay	
Debt service	
Statewide sales and services tax	
Income surtax	
Unrestricted state grants	
Unrestricted investment earnings	
Other	
Transfers	
Total general revenues and transfers	
Change in net assets	
Net assets, beginning of year	
Net assets, end of year	

* This amount excludes the depreciation included in the direct expenses of the various programs.

See Notes to Financial Statements.

Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 1,517,457	\$ 580,960	\$ -	\$ (1,011,226)	\$ -	\$ (1,011,226)
538,635	27,967	-	(299,191)	-	(299,191)
566,101	13,656	-	(366,589)	-	(366,589)
2,622,193	622,583	-	(1,677,006)	-	(1,677,006)
-	105,020	-	(252,737)	-	(252,737)
-	-	-	(182,879)	-	(182,879)
-	-	-	(874,486)	-	(874,486)
-	-	277,635	122,389	-	122,389
-	2,245	-	(525,236)	-	(525,236)
-	107,265	277,635	(1,712,949)	-	(1,712,949)
-	-	-	(519)	-	(519)
-	-	-	(39,186)	-	(39,186)
-	192,652	-	-	-	-
-	-	-	(342,955)	-	(342,955)
-	192,652	-	(382,141)	-	(382,141)
2,622,193	922,500	277,635	(3,772,615)	-	(3,772,615)
-	-	-	-	(11,329)	(11,329)
-	-	-	-	(4,198)	(4,198)
-	-	-	-	(15,527)	(15,527)
233,045	179,836	-	-	16,711	16,711
233,045	179,836	-	-	1,184	1,184
\$ 2,855,238	\$ 1,102,336	\$ 277,635	(3,772,615)	1,184	(3,771,431)
			2,057,565	-	2,057,565
			53,767	-	53,767
			330,334	-	330,334
			456,149	-	456,149
			238,707	-	238,707
			2,287,656	-	2,287,656
			35,789	1,103	36,892
			13,122	-	13,122
			(30,981)	30,981	-
			5,442,108	32,084	5,474,192
			1,669,493	33,268	1,702,761
			8,221,381	194,234	8,415,615
			\$ 9,890,874	\$ 227,502	\$ 10,118,376

Northeast Community School District

**Balance Sheet
Governmental Funds
June 30, 2012**

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,644,412	\$ -	\$ 30,131	\$ 64,361	\$ 1,738,904
Receivables:					
Property tax:					
Current year	23,807	653	4,017	1,215	29,692
Succeeding year	1,806,472	55,114	506,695	125,000	2,493,281
Income surtax	238,562	-	-	-	238,562
Due from other funds	160,489	-	-	-	160,489
Due from other governments	590,334	212,596	-	975	803,905
Restricted cash	-	-	369,465	-	369,465
Total assets	\$ 4,464,076	\$ 268,363	\$ 910,308	\$ 191,551	\$ 5,834,298
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 59,510	\$ 13,020	\$ -	\$ 5,050	\$ 77,580
Salaries and benefits payable	651,572	-	-	-	651,572
Due to other funds	-	160,489	-	-	160,489
Deferred revenue:					
Succeeding year property tax	1,806,472	55,114	506,695	125,000	2,493,281
Income surtax	238,562	-	-	-	238,562
Other	1,229	68,417	-	-	69,646
Total liabilities	2,757,345	297,040	506,695	130,050	3,691,130
Fund balances:					
Restricted for:					
Categorical funding	72,186	-	-	-	72,186
Debt service	-	-	403,613	-	403,613
Management levy	-	-	-	2,376	2,376
Student activities	-	-	-	59,125	59,125
Unassigned	1,634,545	(28,677)	-	-	1,605,868
Total fund balances	1,706,731	(28,677)	403,613	61,501	2,143,168
Total liabilities and fund balances	\$ 4,464,076	\$ 268,363	\$ 910,308	\$ 191,551	\$ 5,834,298

See Notes to Financial Statements.

Northeast Community School District

**Reconciliation of the Balance Sheet -
Governmental Funds to the Statement of Net Assets
June 30, 2012**

Total fund balances of governmental funds	\$ 2,143,168
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	11,845,338
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	306,979
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	(5,199)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(4,399,412)
Net assets of governmental activities	<u>\$ 9,890,874</u>

See Notes to Financial Statements.

Northeast Community School District

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012**

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,214,005	\$ 508,928	\$ 332,082	\$ 100,422	\$ 3,155,437
Tuition	2,056,092	-	-	-	2,056,092
Other	234,911	88,704	11,234	267,041	601,890
State sources	2,881,002	44,047	155	47	2,925,251
Federal sources	329,153	331,541	-	-	660,694
Total revenues	7,715,163	973,220	343,471	367,510	9,399,364
Expenditures:					
Current:					
Instruction:					
Regular	3,010,899	67,141	-	131,478	3,209,518
Special	865,793	-	-	-	865,793
Other	702,198	-	-	244,148	946,346
	4,578,890	67,141	-	375,626	5,021,657
Support services:					
Student services	357,757	-	-	-	357,757
Instructional staff services	182,879	-	-	-	182,879
Administration services	873,894	-	-	3,792	877,686
Operation and maintenance of plant services	699,439	-	-	41,256	740,695
Transportation services	385,573	65,670	-	12,595	463,838
	2,499,542	65,670	-	57,643	2,622,855
Noninstructional programs	142	-	-	377	519
Other expenditures:					
Debt service:					
Principal	-	-	290,000	-	290,000
Interest and fiscal charges	-	-	40,685	-	40,685
Facilities acquisition	-	1,839,002	-	-	1,839,002
AEA flowthrough	192,652	-	-	-	192,652
	192,652	1,839,002	330,685	-	2,362,339
Total expenditures	7,271,226	1,971,813	330,685	433,646	10,007,370
Revenues under (over) expenditures	443,937	(998,593)	12,786	(66,136)	(608,006)
Other financing sources (uses):					
Sale of assets	4,681	-	-	-	4,681
Interfund transfers in	-	-	177,537	-	177,537
Interfund transfers out	-	(177,537)	-	-	(177,537)
Total other financing sources (uses)	4,681	(177,537)	177,537	-	4,681
Net change in fund balance	448,618	(1,176,130)	190,323	(66,136)	(603,325)
Fund balances, beginning of year	1,258,113	1,147,453	213,290	127,637	2,746,493
Fund balances (deficits), end of year	\$ 1,706,731	\$ (28,677)	\$ 403,613	\$ 61,501	\$ 2,143,168

See Notes to Financial Statements.

Northeast 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 \$ (603,325)

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 Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$	2,601,319	
Proceeds on sale of capital assets		(4,681)	
Loss on sale of capital assets		(101,732)	
Depreciation expense		(477,139)	2,017,767

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, change in deferred revenues (103,947)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repayment of long-term debt		290,000	
Change in accrued interest payable		1,499	291,499

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, as follows:

Early retirement		115,463	
Net OPEB liability		(47,964)	67,499

Change in net assets of governmental activities \$ 1,669,493

See Notes to Financial Statements.

Northeast Community School District

Statement of Net Assets

Proprietary Fund

June 30, 2012

	<u>Enterprise Fund</u> <u>School</u> <u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 131,237
Accounts receivable	155
Inventories	6,821
Capital assets, net of accumulated depreciation	<u>96,906</u>
Total assets	<u>235,119</u>
Liabilities	
Accounts payable	632
Unearned revenue	5,166
Net OPEB liability	<u>1,819</u>
Total liabilities	<u>7,617</u>
Net Assets	
Invested in capital assets	96,906
Unrestricted	<u>130,596</u>
Total net assets	<u>\$ 227,502</u>

See Notes to Financial Statements.

Northeast Community School District

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year Ended June 30, 2012

	Enterprise Fund
	School
	Nutrition
Operating revenues:	
Local sources, charges for services	\$ 233,045
Operating expenses:	
Support services:	
Administration:	
Salaries	8,533
Benefits	2,796
Operation and maintenance of plant:	
Services	4,198
Total support services	15,527
Noninstructional programs:	
Food service operations:	
Salaries	115,177
Benefits	32,224
Purchased services	23,137
Supplies	214,514
Depreciation	11,118
	396,170
Total expenses	411,697
Operating (loss)	(178,652)
Nonoperating revenues:	
Interest on investments	1,103
State sources	3,916
Federal sources	175,920
Total nonoperating revenues	180,939
Income before capital contributions	2,287
Capital contributions	30,981
Change in net assets	33,268
Net assets, beginning of year	194,234
Net assets, end of year	\$ 227,502

See Notes to Financial Statements.

Northeast Community School District

Statement of Cash Flows Proprietary Fund Year Ended June 30, 2012

	Enterprise Fund
	School
	Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 233,545
Cash payments to employees for services	(158,000)
Cash payments to suppliers for goods or services	(210,219)
Net cash (used in) operating activities	(134,674)
Cash flows from noncapital financing activities:	
State grants received	3,916
Federal grants received	146,438
Net cash provided by noncapital financing activities	150,354
Cash flows from capital financing activities, purchase of capital assets	(14,897)
Cash flows from investing activities, interest on investments	1,103
Net increase in cash and cash equivalents	1,886
Cash and cash equivalents, beginning of year	129,351
Cash and cash equivalents, end of year	<u>\$ 131,237</u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (178,652)
Adjustments to reconcile operating income (loss) to net cash (used in) operating activities:	
Depreciation	11,118
Commodities used	29,482
Decrease in accounts receivable	500
Increase in unearned revenue	1,516
Increase in accounts payable	632
Increase in net OPEB liability	730
Net cash (used in) operating activities	\$ (134,674)
Schedule of noncash items:	
Noncapital financing activities, federal commodities	\$ 29,482
Capital and related financing activities, capital assets contributed	<u>\$ 30,981</u>

See Notes to Financial Statements.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

Northeast Community School District is a political subdivision of the state of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. The courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Goose Lake, Iowa, and the predominately agricultural territory in Clinton County. The District is governed by a Board of Education whose members are elected on a nonpartisan 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.

Reporting entity:

For financial reporting purposes, Northeast 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. Northeast 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 Clinton County Assessor's Conference Board.

Basis of presentation:

District-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 service.

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 including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvements of those assets.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Restricted net assets result 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. Net assets restricted through enabling legislation as of June 30, 2012 consists of \$72,186 for categorical funding, \$2,376 for management levy, \$59,125 for student activities, \$403,613 for debt service, and \$68,417 for school infrastructure.

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

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

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. The District does not have fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From this fund the general operating expenditures, including instructional, support and other costs are paid.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities. The Capital Projects Fund includes the Statewide Sales, Services and Use Tax Account and the Physical Plant and Equipment Levy Account.

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

The District also has two nonmajor governmental funds:

Special revenue funds: Special revenue funds are used to account for the revenue sources that are legally restricted to expenditures for specific purposes. The District has the following special revenue funds:

The Management Fund is used to pay the costs of unemployment benefits, liability insurance, judgments, and certain early retirement benefits.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Student Activity Fund is used to support cocurricular programs.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position, and cash flows. The District has one proprietary fund type, the enterprise fund.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for the management accountability. The District's nonmajor proprietary fund is the Enterprise, School Nutrition Fund, used to account for the food service operations of the District.

Measurement focus and basis of accounting:

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

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

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

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

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

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

Assets, liabilities and fund equity:

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

Cash, pooled investments and cash equivalents: The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and nonnegotiable 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, have maturity date no longer than three months.

Property tax receivable: Property tax in governmental funds is 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. Current year property tax receivable represents unpaid taxes from the current year. 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. 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with 1½ percent 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.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

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

Asset Class	Amount
Land	\$ 1
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	100,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	2 years
Furniture and equipment	5-20 years

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

Unearned/deferred revenue: Although certain revenues are measurable, they are not available. Available means collectible 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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Unearned revenue consists of unspent grant proceeds, the succeeding year property tax receivable and unearned meal revenues and school registration fees. Unearned revenue in the Statement of Net Assets consists of the succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, unearned federal grant revenues and unearned meal revenues and school registration fees.

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

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

Nonspendable: Balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact.

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.

Committed: Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year-end.

Assigned: Fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The authority to assign fund balances has been delegated to the Business Manager.

Unassigned: All amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which amounts in the committed, assigned, or unassigned fund balance classifications could be used, the District first considers the committed to be spent and then the assigned and unassigned, respectively.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Interfund activity: Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates: The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgets and budgetary control:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted in total or by function.

Note 2. Cash and Pooled Investments

The District's cash and pooled investment consisted of depository accounts at financial institutions including certificate of deposits. The District's deposits in banks as of June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

As of June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Diversified Fund which are valued at an amortized cost of \$1,349 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Rating Service.

Northeast Community School District

Notes to Basic Financial Statements

Note 3. Interfund Transfers and Due to/Due from Other Funds

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service Fund	Capital Projects Fund	\$ 177,537

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The detail of due to/due from other funds for the year ended June 30, 2012 is as follows:

<u>Due to</u>	<u>Due from</u>	<u>Amount</u>
Capital Projects Fund	General Fund	\$ 160,489

The Capital Projects Fund owes the General Fund for payment of expenditures.

Note 4. Whole Grade Sharing

As allowed under Iowa Code Section 282, the District entered into a one-way whole sharing agreement with East Central Community School District (ECCSD) on June 23, 2010. Under the agreement, beginning fiscal year 2012, the District agrees to accept all ECCSD regular education students enrolled in grades 7 through 12 to attend regular classes in the District and allow participation in all extra-curricular activities. Tuition and programming for ECCSD students identified as requiring special education are provided for according to guidelines established by the State Department of Education. Special priority will be given by the District to ECCSD PreK through 6th grade students requiring special education services.

The ECCSD agrees to pay tuition to the District based on the number of ECCSD students enrolled in the District on October 1st of the first semester and March 1st of the second semester. Two payments of equal installments shall be made each semester. The payment due for each semester is one-half of the total sum of 90 percent of the State Regular District Cost plus 0.5 percent of the proportionate share of Teacher Salary Supplement Funds. The equivalent of 2 percent of the State Regular District Cost plus Teacher Salary Supplement Funds will be paid from the sales tax revenues, not to exceed 90 percent of the State Regular District Cost plus Teacher Salary Supplement Funds.

The term of the agreement began with the 2011-12 school fiscal year and shall renew each year thereafter so as to continue with a three year contract in effect at all times. In the event either party wishes to terminate the agreement, the termination may be accomplished by either party giving written notice to the other by the 15th day of December of any school year. The District recognized \$507,906 of revenue in fiscal year 2012 under the agreement and accepted approximately 95 students.

Northeast Community School District

Notes to Basic Financial Statements

Note 4. Whole Grade Sharing (Continued)

The District and ECCSD also entered into a Facility Improvement Program Agreement for the same term as the Whole Sharing Agreement. Under the Facility Improvement Program Agreement, ECCSD has agreed to annually provide additional monies from sales tax revenues to benefit the ECCSD secondary students attending the District. In March of each year, the ECCSD will estimate the amount of sales tax revenues to remit to the District for the Facility Improvement Program in the next school year. ECCSD is only obligated to restrict and remit sales tax revenues based on the number of Clinton and Jackson County resident secondary students from ECCSD who participate in the Whole Grade Sharing Agreement times 100 percent of the estimated Clinton and Jackson County sales tax dollars per student. ECCSD will restrict the receipts beginning in November of each school year and conclude the following August with adjustments made the following November based on actual receipts. The District recognized \$78,310 of revenue from this agreement in the current fiscal year.

Note 5. 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
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 202,905	\$ -	\$ -	\$ 202,905
Construction in progress	4,701,216	2,491,149	7,192,365	-
Total capital assets not being depreciated	4,904,121	2,491,149	7,192,365	202,905
Capital assets being depreciated:				
Buildings	6,818,376	7,198,822	-	14,017,198
Improvements other than buildings	1,393,197	3,792	-	1,396,989
Furniture and equipment	2,573,445	99,921	156,203	2,517,163
Total capital assets being depreciated	10,785,018	7,302,535	156,203	17,931,350
Less accumulated depreciation for:				
Buildings	3,006,700	281,348		3,288,048
Improvements other than buildings	663,229	61,607		724,836
Furniture and equipment	2,191,639	134,184	49,790	2,276,033
Total accumulated depreciation	5,861,568	477,139	49,790	6,288,917
Total capital assets being depreciated, net	4,923,450	6,825,396	106,413	11,642,433
Governmental activities capital assets, net	\$ 9,827,571	\$ 9,316,545	\$ 7,298,778	\$ 11,845,338

Northeast Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets being depreciated:				
Buildings and improvements	\$ -	\$ 30,981	\$ -	\$ 30,981
Furniture and equipment	202,652	14,897	2,296	215,253
Total capital assets being depreciated	202,652	45,878	2,296	246,234
Less accumulated depreciation for:				
Buildings and improvements	-	620	-	620
Furniture and equipment	140,506	10,498	2,296	148,708
Total accumulated depreciation	140,506	11,118	2,296	149,328
Business-type activities capital assets, net	\$ 62,146	\$ 34,760	\$ -	\$ 96,906

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction, Regular	\$ 26,188
Support services:	
Administrative services	800
Operation and maintenance of plant services	9,861
Transportation	97,335
	<u>134,184</u>
Unallocated Depreciation	<u>342,955</u>
Total governmental activities depreciation expense	\$ 477,139
Business-type activities, food service operations	<u>\$ 11,118</u>

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,230,000	\$ -	\$ 290,000	\$ 940,000	\$ 300,000
Qualified school construction bonds	3,302,000	-	-	3,302,000	-
Early retirement	153,428	-	115,463	37,965	37,965
Net OPEB liability	71,483	47,964	-	119,447	-
Total	\$ 4,756,911	\$ 47,964	\$ 405,463	\$ 4,399,412	\$ 337,965
Business-type activities:					
Net OPEB liability	\$ 1,089	\$ 730	\$ -	\$ 1,819	\$ -

Early retirement: The District provided early retirement incentives for certain employees who met certain qualifications as established by the Board of Education. The cost of the incentives is borne by the District in whole. Eligible participants cannot, and do not, contribute to the incentive program.

Early retirement participation is based on the following criteria:

1. It is available to teachers and administrators who are at least 55 years of age. The Board of Directors reserves the right to limit the number of early retirements.
2. The employee has completed at least fifteen (15) years of service to the District.
3. The employee will not be eligible if they received an official notice of layoff or termination or is subject to termination pursuant to Iowa Code Section 279.15 or 279.27.
4. The employee submits a written notification of their intent to apply for early retirement benefits by the close of 45 days following adoption of the Plan by the Board.

During the year ended June 30, 2011, 4 District employees requested early retirement, to be payable during the years ending June 30, 2012 and 2013. The final benefits to be paid to these employees will be in July 2012. During the year ended June 30, 2012, the District paid \$115,463 of early retirement benefits approved during the year ended June 30, 2011 from the Management Fund.

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities (Continued)

General obligation bonds payable: The District issued \$2,800,000 general obligation bonds on May 1, 2004 to advance refund the District's May 1, 1995 general obligation bonds. Following are the details of the District's General Obligation Bonds as of June 30, 2012:

Year Ending June 30	General Obligation Bonds Series 2004			
	Interest Rates	Principal	Interest	Total
2013	3.25%	\$ 300,000	\$ 31,195	\$ 331,195
2014	3.30%	315,000	21,445	336,445
2015	3.40%	325,000	11,050	336,050
		<u>\$ 940,000</u>	<u>\$ 63,690</u>	<u>\$ 1,003,690</u>

Qualified school construction bonds: The District issued \$3,302,000 of qualified school construction bonds (QSCB) bearing 3 percent interest on September 30, 2009 for construction of a fine arts building. Annual transfers of \$177,537 from the Capital Projects Fund to the debt sinking fund at Gateway State Bank are made through September 1, 2024, to pay the \$3,302,000 indebtedness due September 1, 2024.

Note 7. Other Postemployment Benefits (OPEB)

Plan description: The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 63 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

Northeast Community School District

Notes to Basic Financial Statements

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

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	\$ 52,079
Interest on net OPEB obligation	1,815
Adjustment to annual required contribution	3,800
Annual OPEB cost	<u>57,694</u>
Contributions made	<u>9,000</u>
Increase in net OPEB obligation	48,694
Net OPEB obligation beginning of year	<u>72,572</u>
Net OPEB obligation end of year	<u><u>\$ 121,266</u></u>

The District's transition year is June 30, 2010. 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 and the two preceding years are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 44,769	19.8%	\$ 35,910
June 30, 2011	45,345	19.2%	72,572
June 30, 2012	57,694	15.6%	121,266

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 \$ 355,874, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 355,874. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,392,000 and the ratio of the UAAL to covered payroll was 10.49 percent. As of June 30, 2012, there were no trust fund assets.

Northeast Community School District

Notes to Basic Financial Statements

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

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

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing 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 percent discount rate based on the District's funding policy. The projected annual medical trend rate is 6 percent. Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000 on a 2/3 female, 1/3 male gender basis.

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

Note 8. 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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.3 percent of their annual covered salary and the District is required to contribute 6.65 percent of annual covered payroll for the year ended June 30, 2012. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$330,672, \$264,972 and \$259,848, respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

Northeast Community School District

Notes to Basic Financial Statements

Note 10. Property Lease

The District currently has a lease with the City of Goose Lake for rental of rooms for the District's alternative school. Payments are \$800 per month until the District or City terminates the lease.

Note 11. 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 \$192,652 for the year ended June 30, 2012 and is recorded in the General Fund.

Note 12. Categorical Funding

The District's fund balance reserved for categorical funding as of June 30, 2012 is comprised of the following programs:

Program	Amount
Limited English proficiency weighting	\$ 10,047
Talented and gifted	15,800
Market factor incentives	6,220
Early childhood empowerment program	6,160
Core curriculum professional development	16,671
Teacher development academy	2,996
Teacher quality professional development	13,391
Other	901
Total	\$ 72,186

Note 13. Subsequent Events

On September 11, 2012, a referendum, authorized by the Mississippi Bend Area Education Agency, to vote on a petition to seek reorganization of the Preston Community School District and East Central Community School District passed. As a result, the two school districts will combine to form Easton Valley Community School District beginning with the 2013-2014 year. Currently, the District has a whole-grade sharing agreement with East Central Community School District. On December 14, 2012, the Board of the newly formed Easton Valley Community School District provided written notice to the District of its intent to cancel the agreement effective July 1 when the East Central Community School District ceases to exist. However, the District believes the Easton Valley Community School District does not have the authority to cancel the agreement until the East Central Community School District is dissolved. As East Central Community School District did not cancel the agreement by December 15, 2012, the whole-grade sharing agreement is expected to remain until the 2015-2016 school year. The effect of the dissolution of the East Central Community School District to the District is not estimatable.

Northeast Community School District

Notes to Basic Financial Statements

Note 13. Subsequent Events (Continued)

On February 13, 2013, the Board approved a resolution for a special election for the issuance of \$7,500,000 of General Obligation Bonds.

On February 13, 2013, the Board approved the purchase of three school buses with an estimated cost of \$249,271.

Note 14. Governmental Accounting Standards Board (GASB) Statements

The District adopted the following statements during the year ended June 30, 2012:

GASB Statement No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45. This Statement was issued January 2010. This Statement addressed issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011. This Statement clarified that when certain conditions are met, the use of hedge accounting should not be terminated.

The adoption of these Statements had no effect on the District in the current year.

As of June 30, 2012, GASB had issued several statements not yet required to be implemented by the District. The Statements which might impact the District are as follows:

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, issued November 2010, will be effective for the District with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnerships.

GASB Statement No 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 issued November 2010 will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for governmental financial reporting entities by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens

Northeast Community School District

Notes to Basic Financial Statements

Note 14. Governmental Accounting Standards Board (GASB) Statements (Continued)

and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, issued April 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 66, Technical Corrections – 2012, issued April 2012, will be effective for the District with its year ending June 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting.

GASB Statement No. 67, Financial Reporting for Pension Plans, issued June 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement revises existing guidance for the financial reports of most pension plans. This Statement replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and GASB Statement No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, issued June 2012, will be effective for the District beginning with its year ending June 30, 2015. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Statement No. 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI).

The District's management has not yet determined the effect these GASB Statements will have on the District's financial statements.

Northeast Community School District

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2012**

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual
Revenues:			
Local sources	\$ 5,813,419	\$ 265,129	\$ 6,078,548
State sources	2,925,251	3,916	2,929,167
Federal sources	660,694	175,920	836,614
Total revenues	9,399,364	444,965	9,844,329
Expenditures/expenses:			
Instruction	5,021,657	-	5,021,657
Support services	2,622,855	15,527	2,638,382
Noninstructional programs	519	396,170	396,689
Other expenditures	2,362,339	-	2,362,339
Total expenditures/expenses	10,007,370	411,697	10,419,067
Excess (deficiency) of revenues over (under) expenditures/expenses	(608,006)	33,268	(574,738)
Other financing sources (uses):			
Sale of assets	4,681	-	4,681
Interfund transfers in	177,537	-	177,537
Interfund transfers out	(177,537)	-	(177,537)
Total other financing sources (uses)	4,681	-	4,681
Net change in fund balance	(603,325)	33,268	(570,057)
Balance, beginning of year	2,746,493	194,234	2,940,727
Balance, end of year	\$ 2,143,168	\$ 227,502	\$ 2,370,670

See Note to Required Supplementary Information.

Budgeted Amounts		Final to Actual
Original	Final	Variance
\$ 4,990,158	\$ 4,990,158	\$ 1,088,390
2,952,671	2,952,671	(23,504)
335,000	335,000	501,614
8,277,829	8,277,829	1,566,500
5,320,000	5,320,000	298,343
2,930,000	2,930,000	291,618
402,000	402,000	5,311
4,749,977	4,749,977	2,387,638
13,401,977	13,401,977	2,982,910
(5,124,148)	(5,124,148)	4,549,410
-	-	4,681
200,000	200,000	(22,463)
(200,000)	(200,000)	22,463
-	-	4,681
\$ (5,124,148)	\$ (5,124,148)	\$ 4,554,091

Northeast Community School District

Note to Required Supplementary Information – Budgetary Reporting

Note 1. Budgets and Budgetary Information

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes or expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function 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.

Northeast Community School District

**Required Supplementary Information
 Schedule of Funding Progress for the Retiree Health Plan
 Year Ended June 30, 2012**

Year Ended June 30:	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	7/1/2009	-	355,874	355,874	0.00%	3,320,000	10.72%
2011	7/1/2009	-	355,874	355,874	0.00%	3,726,000	9.55%
2012	7/1/2009	-	355,874	355,874	0.00%	3,392,000	10.49%

Fiscal Year 2010 was the transition year.

See Note 7 in the accompanying notes to financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Northeast Community School District

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 1,161	\$ 63,200	\$ 64,361
Receivables:			
Property tax:			
Current year	1,215	-	1,215
Succeeding year	125,000	-	125,000
Due from other governments	-	975	975
Total assets	\$ 127,376	\$ 64,175	\$ 191,551
Liabilities and fund balances			
Accounts payable	\$ -	\$ 5,050	\$ 5,050
Deferred revenue,			
Succeeding year property tax	125,000	-	125,000
Total liabilities	125,000	5,050	130,050
Fund balances			
Restricted for:			
Management levy	2,376	-	2,376
Student activities	-	59,125	59,125
Total fund balances	2,376	59,125	61,501
Total liabilities and Fund balances	\$ 127,376	\$ 64,175	\$ 191,551

Northeast Community School District

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2012

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 100,422	\$ -	\$ 100,422
Other	8,605	258,436	267,041
State sources	47	-	47
Total revenues	109,074	258,436	367,510
Expenditures:			
Current:			
Instruction:			
Regular	131,478	-	131,478
Other	1,882	242,266	244,148
Support services:			
Administration services	3,792	-	3,792
Operation and maintenance of plant services	41,256	-	41,256
Transportation services	12,595	-	12,595
Noninstructional programs	377	-	377
Total expenditures	191,380	242,266	433,646
Net change in fund balances	(82,306)	16,170	(66,136)
Fund balances, beginning of year	84,682	42,955	127,637
Fund balances, end of year	\$ 2,376	\$ 59,125	\$ 61,501

Northeast Community School District

Schedule of Combining Balance Sheet

Capital Project Fund - By Account

June 30, 2012

	Capital Projects Accounts		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ -	\$ -	\$ -
Receivables:			
Property tax:			
Current year	-	653	653
Succeeding year	-	55,114	55,114
Due from other governments	212,596	-	212,596
Total assets	\$ 212,596	\$ 55,767	\$ 268,363
Liabilities and Fund Balance (Deficits)			
Liabilities:			
Accounts payable	13,020	-	13,020
Due to other funds	135,841	24,648	160,489
Deferred revenue:			
Succeeding year property tax	-	55,114	55,114
Other	68,417	-	68,417
Total liabilities	217,278	79,762	297,040
Fund Balance (Deficits)			
Unassigned	(4,682)	(23,995)	(28,677)
Total fund balance (deficits)	(4,682)	(23,995)	(28,677)
Total liabilities and fund balance (deficits)	\$ 212,596	\$ 55,767	\$ 268,363

Northeast Community School District

Schedule of Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Capital Project Fund - By Account

Year Ended June 30, 2012

	Capital Projects Accounts		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
Revenues:			
Local sources:			
Local tax	\$ 454,876	\$ 54,052	\$ 508,928
Other	88,704	-	88,704
State sources	44,022	25	44,047
Federal sources	331,541	-	331,541
Total revenues	919,143	54,077	973,220
Expenditures:			
Instruction	67,141	-	67,141
Support services:			
Transportation services	33,034	32,636	65,670
Other expenditures, facilities acquisition	1,839,002	-	1,839,002
Total expenditures	1,939,177	32,636	1,971,813
Revenues over (under) expenditures	(1,020,034)	21,441	(998,593)
Other financing sources (uses),			
Transfers out	(177,537)	-	(177,537)
Total other financing sources (uses)	(177,537)	-	(177,537)
Net change in fund balance	(1,197,571)	21,441	(1,176,130)
Fund balance (deficit), beginning of year	1,192,889	(45,436)	1,147,453
Fund balance (deficit), end of year	\$ (4,682)	\$ (23,995)	\$ (28,677)

Northeast Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year Ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	\$ 1,686	\$ 718	\$ 2,094	\$ 310
Music	(1,104)	170	1,612	(2,546)
Cross Country	(791)	495	2,543	(2,839)
Golf	(4,399)	8	119	(4,510)
Golf Coed Fundraising	-	329	424	(95)
HS Cheerleading	(4,752)	5	1,864	(6,611)
Cheerleading Fundraiser	520	1,895	1,862	553
MS Boys Basketball	(259)	1,107	1,830	(982)
HS Boys Basketball	4,207	4,918	3,332	5,793
HS Boys Basketball Fundraising	5,726	9,493	10,107	5,112
MS Football	(551)	583	937	(905)
HS Football	5,336	8,520	9,748	4,108
HS Football Fundraising	7,920	10,891	10,735	8,076
HS Boys Soccer	(6,922)	1,178	2,935	(8,679)
HS Girls Soccer	(1,160)	855	2,769	(3,074)
Baseball	(12,492)	2,238	4,965	(15,219)
Baseball Fundraising	1,124	5,742	6,553	313
MS Boys Track	1,195	841	188	1,848
HS Boys Track	(7,477)	1,681	1,865	(7,661)
Boys Track Fundraising	3,605	2,898	3,225	3,278
Boys Golf	-	8	1,483	(1,475)
Girls Golf	-	-	1,350	(1,350)
MS Wrestling	3,244	272	177	3,339
HS Wrestling	(968)	4,606	4,829	(1,191)
Wrestling Fundraising	6,264	40,098	31,161	15,201
MS Girls Basketball	(711)	1,126	1,273	(858)
HS Girls Basketball	445	5,303	3,407	2,341
HS Girls Basketball Fundraising	1,662	7,310	7,570	1,402
MS Volleyball	731	1,306	817	1,220
HS Volleyball	1,400	4,793	2,979	3,214
HS Volleyball Fundraising	2,899	22,785	21,647	4,037
MS Girls Softball	(722)	-	208	(930)
HS Softball	(10,132)	3,217	4,552	(11,467)
HS Softball Fundraising	(949)	11,049	10,254	(154)
MS Girls Track	1,287	866	188	1,965
HS Girls Track	(367)	913	4,031	(3,485)
HS Girls Track Fundraising	2,945	2,766	3,575	2,136
Activity General Activities	10,306	12,697	3,580	19,423
Activity Interest Account	300	161	-	461
Student Center-Vending Commissions	1,380	518	-	1,898
Post Prom	1,089	5,620	4,857	1,852
Student Leadership	(8)	75	240	(173)

(Continued)

Northeast Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts (Continued)
Year Ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Spanish Club	\$ 1,142	\$ 8,255	\$ 9,305	\$ 92
Dance Team	118	944	574	488
S.A.D.D.	1,559	520	695	1,384
NHS Fundraising	976	-	393	583
FBLA	1,096	19,174	17,623	2,647
FCCLA	962	730	526	1,166
FTA	167	-	478	(311)
FFA	13,140	38,511	27,206	24,445
MS Student Council	1,566	384	491	1,459
HS Student Council	194	2,416	2,485	125
Class of 2009	8	-	-	8
Class of 2010	(15)	-	-	(15)
Class of 2011	620	-	-	620
Class of 2012	969	2,252	442	2,779
Class of 2013	2,036	548	1,648	936
Class of 2014	2,904	-	-	2,904
Class of 2015	2,923	-	-	2,923
Class of 2016	221	4,141	2,302	2,060
6th Grade Store	862	507	213	1,156
Total	\$ 42,955	\$ 258,436	\$ 242,266	\$ 59,125

Northeast Community School District

Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds - Modified Accrual Basis

Last Nine Years

	Years Ended June 30:			
	2012	2011	2010	2009
Revenues:				
Local sources:				
Local tax	\$ 3,155,437	\$ 3,057,629	\$ 2,743,193	\$ 2,649,113
Tuition	2,056,092	1,568,952	1,361,457	1,249,924
Other	601,890	689,649	376,759	328,051
Intermediate sources	-	-	-	-
State sources	2,925,251	3,029,861	2,447,461	2,812,220
Federal sources	660,694	1,892,138	440,984	198,624
Total revenues	\$ 9,399,364	\$ 10,238,229	\$ 7,369,854	\$ 7,237,932
Expenditures:				
Instruction:				
Regular	\$ 3,209,518	\$ 3,061,683	\$ 2,891,009	\$ 2,866,720
Special	865,793	640,696	734,869	742,209
Other	946,346	783,121	861,437	779,628
Support services:				
Student services	357,757	305,332	266,469	243,906
Instructional staff services	182,879	143,256	131,282	137,313
Administration services	877,686	722,058	683,221	676,707
Operation and maintenance of plant services	740,695	621,402	590,053	612,086
Transportation services	463,838	538,438	386,027	388,819
Noninstructional programs	519	2,145	2,023	1,665
Other expenditures:				
Facilities acquisition	1,839,002	4,457,977	426,884	350,732
Long-term debt:				
Principal	290,000	280,000	354,948	593,791
Interest and fiscal charges	40,685	49,035	60,833	73,026
AEA flowthrough	192,652	216,762	214,498	199,657
Total expenditures	\$ 10,007,370	\$ 11,821,905	\$ 7,603,553	\$ 7,666,259

Years Ended June 30:					
2008	2007	2006	2005	2004	
\$ 2,660,377	\$ 2,692,210	\$ 2,547,106	\$ 2,580,192	\$ 2,686,990	
1,047,153	860,319	713,013	522,446	549,462	
345,411	317,999	328,816	379,225	267,975	
29,470	36,864	38,159	36,975	31,654	
2,727,325	2,777,706	2,772,517	2,654,881	2,551,781	
99,773	115,911	106,236	150,752	217,338	
<u>\$ 6,909,509</u>	<u>\$ 6,801,009</u>	<u>\$ 6,505,847</u>	<u>\$ 6,324,471</u>	<u>\$ 6,305,200</u>	

\$ 2,655,381	\$ 2,512,909	\$ 2,354,686	\$ 2,310,146	\$ 2,512,182	
677,998	704,686	612,022	615,999	828,275	
748,162	680,686	690,736	651,797	545,153	
228,253	227,253	209,714	198,822	167,693	
121,472	108,100	138,799	147,828	91,353	
629,884	590,011	608,683	607,246	565,233	
561,162	573,790	555,690	464,450	441,993	
679,148	502,626	446,526	420,152	410,255	
5,469	2,901	2,663	1,386	774	
137,763	157,320	134,943	284,933	949,633	
380,000	370,000	360,000	2,940,000	208,000	
77,462	85,858	93,423	263,183	204,897	
195,507	192,793	186,543	185,900	189,565	
<u>\$ 7,097,661</u>	<u>\$ 6,708,933</u>	<u>\$ 6,394,428</u>	<u>\$ 9,091,842</u>	<u>\$ 7,115,006</u>	

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Northeast Community School District

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Entity Number	Federal Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Child Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 12	\$ 19,718
National School Lunch Program	10.555	FY 12	126,721
National School Lunch - Commodities (Noncash)	10.555	FY 12	29,482
Total U.S. Department of Agriculture			<u>175,921</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster Programs:			
Title I Grants to Local Educational Agencies	84.010	FY 12	48,766
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 10	2,728
			<u>51,494</u>
Vocational Education-Basic Grants to States	84.048	FY 12	220
Special Education-State Program Improvement	84.323	FY 12	138
Improving Teacher Quality State Grants	84.367	FY 12	24,242
Grants for State Assessments and Related Activities	84.369	FY 12	4,511
ARRA-Education Jobs Bill	84.410	FY 11	110,221
Mississippi Bend Area Education Agency:			
Special Education - Grants to States	84.027	FY 12	27,415
Career and Technical Education - Basic Grants to States	84.048	FY 12	5,628
Title III-English Language Acquisition State Grants	84.365	FY 12	552
Total U.S. Department of Education			<u>224,421</u>
U.S. Department of Homeland Security:			
Iowa Homeland Security & Emergency Management:			
Hazard Mitigation Program Grant	97.039	FY11	244,950
Total			<u>\$ 645,292</u>

See Note to Schedule of Expenditures of Federal Awards.

Northeast Community School District

Note to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Northeast Community School District under programs of the federal government for the year ended June 30, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the modified accrual or accrual basis of accounting based on the fund type of the program. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles of State and Local Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available. Therefore, some accounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Northeast Community School District

Summary Schedule of Prior Audit Findings Year Ended June 30, 2012

	Findings	Status	Corrective Action Plan or Other Explanation
Material Weaknesses in Internal Control:			
II-A-11	Material audit adjustments to the financial statements and schedule of expenditures of federal awards.	Not corrected	See II-A-12
II-B-11	Insufficient segregation of duties over the cash disbursement function.	Not corrected	See II-B-12
II-C-11	Insufficient segregation of duties over the cash receipts process.	Not corrected	See II-C-12
II-D-11	Insufficient segregation of duties over the payroll process.	Not corrected	See II-D-12
Findings in Administering Federal Programs:			
Material Weaknesses in Internal Control:			
III-A-11	Material audit adjustments to the financial statements of federal programs.	Not corrected	See III-A-12
III-B-11	Insufficient segregation of duties over the cash disbursement function.	Not corrected	See III-B-12
III-C-11	Insufficient segregation of duties over the cash receipts process.	Not corrected	See III-C-12
III-D-11	Insufficient segregation of duties over the payroll process.	Not corrected	See III-D-12
Other Findings Related to Statutory Reporting:			
IV-A-11	Expenditures exceeded budget for the support services and other expenditures functions.	Corrected	
IV-B-11	Credit card charges did not have supporting receipts.	Corrected	
IV-M-11	The District had several deficit student activity fund accounts.	Not corrected	See IV-M-12
IV-N-11	The Activity Fund was awarding scholarships.	Not corrected	See IV-N-12
IV-O-11	Officiating contracts were not properly obtained.	Corrected	

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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
Northeast Community School District
Goose Lake, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast 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 February 21, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

Management of Northeast Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northeast Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northeast Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast 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 deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about Northeast Community School 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.

We noted certain matters that we reported to management of Northeast Community School District in a separate letter dated February 21, 2013.

Northeast Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Northeast 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 management, the Board of Education, others within Northeast Community School District and other parties to whom Northeast Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than those specified parties.

Bohnsack & Frommelt LLP

Overland Park, Kansas
February 21, 2013

**Independent Auditor's Report on Compliance With
Requirements That Could Have a Direct and Material
Effect on Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the Board of Education
Northeast Community School District
Goose Lake, Iowa

Compliance

We have audited the compliance of Northeast Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. Northeast Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Northeast Community School District's management. Our responsibility is to express an opinion on Northeast Community School District's compliance based on our audit.

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

In our opinion, Northeast Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described as III-A-12 through III-D-12 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The Northeast Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on the responses.

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

Bohnsack & Frommelt LLP

Overland Park, Kansas
February 21, 2013

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Part I: Summary of the Independent Auditor's Results

- a) Unqualified opinions were issued on the financial statements.
- b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c) The audit did not disclose any noncompliance which is material to the financial statements.
- d) Material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g) Major programs were as follows:
 - 84.410 ARRA-Education Jobs Bill
 - 97.039 Hazard Mitigation Program Grant
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) Northeast Community School District did not qualify as a low-risk auditee.

(Continued)

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Part II: Findings Related to the Basic Financial Statements

Instances of noncompliance:

No matters were reported.

Internal control deficiencies:

II-A-12

Finding: A properly designed system of internal control over financial reporting requires entities to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America and with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The District did not properly identify year-end accrual adjustments and restricted fund balances required to be reported in accordance with the applicable standards and principles.

Condition: Material audit adjustments to the District's trial balances and the Schedule of Expenditures of Federal Awards were identified and proposed. These adjustments included the following:

- Capital assets and accumulated depreciation
- Categorical funding restricted fund balance accounts by source
- Accounts receivable and deferred revenue
- Accounts payable

Context: Audit adjustments were proposed for each of the District's funds balance sheets.

Effect: Financial statements are materially misstated and errors are not detected in a timely basis.

Cause: The District does not reconcile the balance sheet accounts of each fund for year-end balances.

Recommendation: We recommend the District prepare and reconcile the balance sheet accounts of each fund on a routine basis. We recommend the District monthly reconcile all categorical funding accounts by preparing a report from the system that shows revenues, expenditures and ending balances that agree to the restricted fund balances in the General Fund.

Response: The District will review current reconciliation procedures and determine process improvement to properly identify year-end accrual adjustments and balance sheet account balances.

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

II-B-12

Finding: The District has insufficient segregation of duties over the cash disbursement function.

Condition: One position has access to set up or edit vendors in the system, enters invoices into the system to be paid, prints checks, reconcile bank statements, and after Board approval mail checks. This position also has access to post entries to the general ledger, provide the monthly financial reports, and perform wire transfers as well as has access to District credit cards.

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to its completion.

Effect: Misappropriations of assets could occur and not be detected in a timely basis.

Cause: A limited number of personnel are involved in the cash disbursement function.

Recommendation: The District implemented several changes mid-year to improve internal controls over cash disbursements including having an employee independent of check writing access account for check sequence and requiring the bank to contact the Board President prior to processing wire transfers. We recommend the District consider the following:

- The District should investigate whether their system can restrict access in the expenditure module of the creation of new vendors and any modifications to vendors to someone independent of the Business Manager who is responsible for entering invoices into the system and processing checks.
- The Superintendent should review the bank reconciliations prepared by the Business Manager and should compare the bank balance to the monthly bank statement, book balance to the general ledger system, and make sure there are no unusual or reoccurring reconciling items listed on the reconciliation. In addition, the Superintendent should obtain the bank statements directly from the bank and scan through the cancelled checks to look for any unusual payees, amounts, and to ensure the authorized signature is appropriate. This review process should be documented by requiring the Superintendent to sign and date the monthly bank reconciliations.

Response and corrective action plan: The District will realign and reassign duties where possible to improve internal controls over the District's transactions.

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

II-C-12

Finding: The District has insufficient segregation of duties over the cash receipts process.

Condition: For the Nutrition Fund, one individual at the District has the ability to access cash, prepare the deposit slip, deposit the funds at the financial institution, posts the receipts to the system and prepares the bank reconciliation. There is not an independent review of the bank reconciliations. For other receipts, the building secretaries are collecting cash, preparing the deposit slip and taking the deposit to the bank. There is no independent reconciliation of the pre-numbered receipt books to the bank deposits. The Business Manager has access to collections received at the administrative offices and posts receipts and reconciles accounts.

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to its completion.

Effect: Misappropriations of assets could occur and not be detected in a timely basis.

Cause: A limited number of personnel are involved in the cash receipts function.

Recommendation: The District implemented several changes mid-year to improve controls. These changes included limiting access to Nutrition Fund receives, realigning duties within the administrative office, and the Business Manager maintaining a receipt number log to monitor the receipt collections at the buildings. We recommend the District consider the following to further improve controls:

- Since the Business Manager has billing and posting authorizations, internal controls would be strengthened if she did not handle cash or checks. All receipts, including receipts from other Districts and collections during the summer, should be receipted by someone other than the Business Manager, deposited and then monitored in the system to agree the amount deposited to the Business Manager's posting.
- The Superintendent should receive the monthly bank statement and review the cancelled checks to look for any unusual payees, amounts and to ensure the signatures were proper. The Superintendent should review the monthly bank reconciliations and compare the bank balances to the monthly bank statement, book balance to the general ledger system and make sure there are no unusual reconciling items listed on the reconciliation. This review should be documented by requiring the Superintendent to sign and date the monthly reconciliations.
- To provide improved monitoring controls, we recommend all activity fund sponsors are provided a listing of all deposits and all disbursements from their applicable activity fund on a monthly basis. The activity fund sponsor would be required to review the report to ensure the deposits and disbursements are proper and authorized.

Response and correction action plan: The District will realign and reassign duties where possible to improve internal controls over the District's transactions.

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

II-D-12

Finding: The District has insufficient segregation of duties over the payroll process.

Condition: One individual at the District has the ability to change the employee master file, including entering new employees, modifying pay rates and adding deductions; enters time to the payroll system, processes the payroll and generates payroll checks and direct deposits. This position also posts the payroll to the general ledger and reconciles the bank statements.

Context: A good internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to its completion.

Effect: Misappropriations of assets could occur and not be detected in a timely basis.

Cause: A limited number of personnel are involved in the payroll function.

Recommendation: Ideally, the position responsible for processing the payroll should be segregated from the position with the ability to make employee master file changes. The District should evaluate the payroll software to determine if password protections within applications in regard to the master file could be limited to another position in the Superintendent's Office. If capabilities do not exist to restrict access, we provide the following recommendations to strengthen the District's internal control system:

- Another position should review the payroll checks and direct deposit listing to look for any unknown employees and any unusual pay amounts. This position should compare the total pay amount to the prior payroll period and investigate any unusual variances in the total amount paid from one pay period to the next and compare totals to budget for any variances.
- The District should determine if a payroll change/edit report can be printed from the payroll system. This report should list all changes made to the employee master files as well as extra pays or leave time added for the pay period. The changes on this report should be reviewed by a position independent from the payroll processing position.
- The Superintendent should receive the monthly bank statement and review the cancelled checks to look for any unusual payees, amounts and to ensure the signatures were proper. The Superintendent should review the monthly bank reconciliations and compare the bank balances to the monthly bank statement, book balance to the general ledger system and make sure there are no unusual reconciling items listed on the reconciliation. This review should be documented by requiring the Superintendent to sign and date the monthly bank reconciliations.

Response and corrective action plan: The District will realign and reassign duties where possible to improve internal controls over the District's transactions.

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Part III: Findings and Questioned Costs for Federal Awards

Instances of noncompliance:

No matters were reported.

Internal control deficiencies:

III-A-12

**U.S. Department of Agriculture
Passed Through Iowa Department of Education
School Breakfast Program (CFDA 10.553)
National School Lunch Program (CFDA 10.555)
Federal Award Year: 2012 and 2011**

**U.S. Department of Homeland Security
Passed Through Iowa Department of Homeland Security & Emergency Management
Hazard Mitigation Grant (CFDA 97.039)
Federal Award Year: 2011**

**U.S. Department of Education
Passed Through Iowa Department of Education
ARRA-Education Jobs Bill (CFDA 84.410)
Federal Award Year: 2011**

Refer to Finding II-A-12

III-B-12

**U.S. Department of Agriculture
Passed Through Iowa Department of Education
School Breakfast Program (CFDA 10.553)
National School Lunch Program (CFDA 10.555)
Federal Award Year: 2012 and 2011**

Refer to Finding II-B-12

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

III-C-12

**U.S. Department of Agriculture
Passed Through Iowa Department of Education
School Breakfast Program (CFDA 10.553)
National School Lunch Program (CFDA 10.555)
Federal Award Year: 2012 and 2011**

Refer to Finding II-C-12

III-D-12

**U.S. Department of Agriculture
Passed Through Iowa Department of Education
School Breakfast Program (CFDA 10.553)
National School Lunch Program (CFDA 10.555)
Federal Award Year: 2012 and 2011**

Refer to Finding II-D-12

Part IV: Other Findings Related to Statutory Reporting

IV-A-12

Certified Budget: Expenditures for the year ended June 30, 2012, did not exceed the amounts budgeted.

IV-B-12

Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-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.

IV-D-12

Business Transactions: No business transactions between the District and District officials or employees were noted.

IV-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.

IV-F-12

Board Minutes: No transactions requiring Board approval which had not been approved by the Board were noted.

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

IV-G-12

Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

IV-H-12

Supplementary Weighting: No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-12

Deposits and Investments: No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-12

Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

IV-K-12

Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-L-12

Statewide Sales and Services Tax: No instances of noncompliance with the use of the statewide sales and services 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 and services 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 and services tax revenue in the District's CAR:

Beginning balance		\$	1,192,889
Statewide sales and services tax revenue			454,876
Grants and contributions			375,563
Interest and other local revenues			88,704
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	1,906,143	
Equipment		33,034	1,939,177
Transfers out			177,537
Ending balance		\$	<u><u>(4,682)</u></u>

Northeast Community School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

IV-L-12 (continued)

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 2.02256	\$ 236,315
Physical Plant and Equipment Levy (PPEL)	1.34000	218,561

IV-M-12

Financial Condition

Finding: The District had several deficit student activity fund accounts.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits. The District should implement procedures that prevent deficit spending from occurring.

Response: We will look at alternatives to eliminate negative activity fund accounts.

Conclusion: Response accepted.

IV-N-12

Student Activity Fund

Finding: The Student Activity Fund is awarding scholarships. Any funds raised for scholarships should be receipted and expended in a different fund type, such as a Private Purpose Trust Fund.

Recommendation: We recommend the District discontinue reporting scholarships in the Student Activity Fund.

Response: The District will evaluate the current scholarship requirements and determine whether to create the appropriate funds.

Conclusion: Response accepted.

Northeast Community School District

Corrective Action Plan Year Ended June 30, 2012

Comment Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
Material Weaknesses in Internal Control:				
II-A-12	The District did not properly identify year-end accrual adjustments and restricted fund balances.	See response and corrective action plan at II-A-12	2013	Tina Bartels
II-B-12	The District has insufficient segregation of duties over the cash disbursement function.	See response and corrective action plan at II-B-12	2013	Tina Bartels
II-C-12	The District has insufficient segregation of duties over the cash receipts process.	See response and corrective action plan at II-C-12	2013	Tina Bartels
II-D-12	The District has insufficient segregation of duties over the payroll process.	See response and corrective action plan at II-D-12	2013	Tina Bartels
Finding in Administering Federal Programs:				
Material Weaknesses in Internal Control:				
III-A-12 Through III-D-12	See findings II-A-12 through II-D-12 above.	See response and corrective action plans at II-A-12 through II-D-12	2013	Tina Bartels
Other Findings Related to Statutory Reporting:				
IV-M-12	The District had deficit student activity fund accounts.	See response at IV-M-12	2013	Tina Bartels
IV-N-12	The Student Activity Fund is awarding scholarships.	See response at IV-N-12	2013	Tina Bartels



To the Board of Education
Northeast Community School District
Goose Lake, Iowa

In connection with our audit of the financial statements of the Northeast Community School District as of and for the year ended June 30, 2012, we identified deficiencies in internal control over financial reporting (control deficiencies).

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when a control necessary to meet the control objective is missing, or when an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

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.

Following is a description of identified control deficiencies that we determined did not constitute significant deficiencies or material weaknesses:

- 1) The sinking fund requirements of the District's Qualified School Construction Bonds require that annually on September 1 of each year a deposit of \$177,537.25 be invested in accordance with the terms of the Reserve Fund Deposit Agreement. The deposit for fiscal year 2012 was made on September 6, 2011. We recommend that the District establish procedures to timely deposit the required reserve annually.
- 2) The District has three activity cash accounts that are not recorded in the District's general ledger with balances as of June 30, 2012 of \$1,241.01. All accounts should be properly accounted for within the District's chart of accounts. In addition, we noted that scholarships checks were written out of these activity fund accounts. According to Chapter 9 of the Uniform Administrative Procedures Manual, moneys in activity funds shall be used to support only the co-curricular program defined in Department of Education Administrative Rules (298A.8). The manual also indicates that it is never appropriate for a school district to give cash to student members of activity groups.

- 3) The District has an account at The Bancorp Bank that was used as an impress account by the previous servicer of the flex medical spending program. We recommend that dormant accounts be closed to prevent unauthorized use.
- 4) We noted the following over cash disbursements:
 - Four invoices were received directly by the Business Manager and approved and paid by the Business Manager. All invoices should be reviewed and approved prior to payment by the Superintendent or the individual responsible for generating the invoice.
 - An invoice for textbooks was properly authorized; however, no purchase order was used or approved. A purchase order should be processed and approved prior to the order.
 - Checks for payroll withholding are processed even though the withholding is paid online. The Business Manager maintains the checks and notes when the transaction is cleared the bank. To improve internal controls, we recommend the checks be defaced so the checks cannot be cashed.
 - For construction projects, the Superintendent should sign the Application and Certificate for Payment Form to indicate the form has been reviewed and approved for payment.
 - Three officiating schedules were not properly signed by the Athletic Director prior to payment.
- 5) The District has several student activity accounts that are in a deficit position which means the club or team was permitted to spend more than the receipts collected. As a result, cash collected for other purposes is being borrowed to fund these activities. We recommend the District evaluate each deficit activity to determine how to resolve the deficit position. We also recommend the District implement procedures to prevent deficit spending from occurring.
- 6) In October 2011, the District paid the Superintendent \$1,500 additional compensation for participation in the state's mentoring program. The District received funding from East Central School District for the program. The additional compensation to the Superintendent for this program was not approved by the Northeast Community School District's Board of Education. We recommend that all compensation to administrators, regardless of funding source, be approved by the Board of the District prior to payment.

This communication is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Bohnsack & Frommelt LLP

Overland Park, Kansas
February 21, 2013