

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

**FINANCIAL REPORT**

**JUNE 30, 2012**

## TABLE OF CONTENTS

		<u>Page</u>
BOARD OF EDUCATION AND SCHOOL OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		4
<b>BASIC FINANCIAL STATEMENTS</b>	<b><u>Exhibit</u></b>	
District-Wide Financial Statements		
Statement of Net Assets	A	5
Statement of Activities	B	6
Governmental Fund Financial Statements		
Balance Sheet	C	7-8
Statement of Revenues, Expenditures, and Changes in Fund Balances	D	9-10
Proprietary Funds Financial Statements		
Statement of Net Assets	E	11
Statement of Revenues, Expenses, and Changes in Net Assets	F	12
Statement of Cash Flows	G	13
Notes to Financial Statements		14-29
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds		30
Notes to Required Supplementary Information-Budgetary Reporting		31
Schedule of Funding Progress for the Retiree Health Plan		32
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION		33
<b>OTHER SUPPLEMENTARY INFORMATION</b>	<b><u>Schedule</u></b>	
Nonmajor Governmental Funds		
Combining Balance Sheet	1	34
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	2	35
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	36
Comparative Schedule of Revenues and Expenditures	4	37
Schedule of Findings and Questioned Costs	5	38-40
Schedule of Expenditures of Federal Awards	6	41
Notes to the Schedule of Expenditures of Federal Awards		42
Comparison of General Fund Revenues	7	43
Comparison of General Fund Expenditures	8	44
Operating Fund Financial Solvency	9	45
Spending Authority	10	46
Student Enrollment Data	11	47
General Fund Revenue Analysis	12	48
General Fund Expenditure Analysis	13	49
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 <i>GOVERNMENT AUDITING STANDARDS</i>		50-51
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		52-53
MANAGEMENT LETTER		54-57

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

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

<b>Board of Education</b> <b><u>(After September 2011 Election)</u></b>			
Roy Guenther	President	West Union, Iowa	2015
Karen Michelson	Vice President	Fayette, Iowa	2013
Julie Ahrens	Board Member	Fayette, Iowa	2013
Kathy Wenthold	Board Member	West Union, Iowa	2013
Carol Weidemann	Board Member	West Union, Iowa	2013
Randy Tope	Board Member	West Union, Iowa	2015
Denise Johnson	Board Member	Alpha, Iowa	2015

School Officials

Duane Willhite – Superintendent  
Sue Thoms – District Secretary/Treasurer

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012, on our consideration of North Fayette Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and funding progress for the retiree health plan on page 4 and pages 30 through 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
December 18, 2012

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

**Management's Discussion and Analysis  
For the Fiscal Year Ending June 30, 2012**

Management of North Fayette Community School District provides this Management's Discussion and Analysis of North Fayette Community School District's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012.

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

**FINANCIAL HIGHLIGHTS**

In total, governmental net assets increased by \$841,086. Statewide sales, services and use tax-capital projects fund increased approximately by \$322,212, property taxes levied increased by \$147,277, and state grant revenue increased approximately by \$254,543. District program expenses were 0.93% or approximately \$94,947 less in 2012 than in 2011.

General fund revenues accounted for \$8,961,023 in revenue or 83.1% of all revenues. General fund expenditures accounted for \$8,523,999 in expenditures or 84.5% of all expenditures.

**USING THE BASIC FINANCIAL STATEMENTS**

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

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

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

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

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

Other supplementary information provides detailed information about the nonmajor funds.

## REPORTING THE DISTRICT AS A WHOLE

### *The Statement of Net Assets and the Statement of Activities*

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

The statement of net assets presents all of the District's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

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

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

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

### *Fund Financial Statements*

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

### *Governmental Funds*

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

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

## REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS (Continued)

### *Proprietary Funds*

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

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

### DISTRICT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following is a summary perspective of the statement of net assets of the District as a whole. The North Fayette Community School District's net assets at the end of fiscal year 2012 for governmental activities were \$8,927,342 and for business-type activities were \$197,551.

	Condensed Statement of Net Assets							
	(Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2012	2011	2012	2011	2012	2011		
Current and other assets	\$ 7,888	\$ 7,069	\$ 137	\$ 125	\$ 8,025	\$ 7,194	11.55%	
Capital assets	8,543	8,644	86	56	8,629	8,700	-0.82%	
Total assets	16,431	15,713	223	181	16,654	15,894	4.78%	
Long-term debt outstanding	2,438	2,406	-	-	2,438	2,406	1.33%	
Other liabilities	5,066	5,221	25	20	5,091	5,241	-2.86%	
Total liabilities	7,504	7,627	25	20	7,529	7,647	-1.54%	
Net assets								
Invested in capital assets, net of related debt	6,646	6,776	86	56	6,732	6,832	-1.46%	
Restricted	1,831	1,291	-	-	1,831	1,291	41.83%	
Unrestricted	450	19	112	105	562	124	353.23%	
Total net assets	\$ 8,927	\$ 8,086	\$ 198	\$ 161	\$ 9,125	\$ 8,247	10.65%	

## DISTRICT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the change in net assets for the years ending June 30, 2012 and 2011:

	Changes in Net Assets of Governmental Activities (Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
<b>Revenues:</b>							
Program revenue							
Charges for service	\$ 588	\$ 602	\$ 236	\$ 241	\$ 824	\$ 843	-2.25%
Operating grants	1,512	1,623	227	221	1,739	1,844	-5.69%
General revenue							
Property taxes	3,706	3,559	-	-	3,706	3,559	4.13%
Sales tax and surtax	963	857	-	-	963	857	12.37%
Unrestricted state grants	3,801	3,547	-	-	3,801	3,547	7.16%
Unrestricted investment earnings	3	4	-	-	3	4	-25.00%
Other revenue	(15)	185	-	-	(15)	185	-108.11%
Total revenues	<u>10,558</u>	<u>10,377</u>	<u>463</u>	<u>462</u>	<u>11,021</u>	<u>10,839</u>	<u>1.68%</u>
<b>Program expenses:</b>							
Instruction	6,224	6,374	-	-	6,224	6,374	-2.35%
Student support	2,598	2,609	-	-	2,598	2,609	-0.42%
Non-instructional programs	-	-	426	405	426	405	5.19%
Other expenses	895	850	-	-	895	850	5.29%
Total expenses	<u>9,717</u>	<u>9,833</u>	<u>426</u>	<u>405</u>	<u>10,143</u>	<u>10,238</u>	<u>0.94%</u>
Increase in net assets	841	544	37	57	878	601	46.09%
Net assets Beginning of Year	<u>8,086</u>	<u>7,542</u>	<u>161</u>	<u>104</u>	<u>8,247</u>	<u>7,646</u>	<u>7.86%</u>
Net assets End of Year	<u>\$ 8,927</u>	<u>\$ 8,086</u>	<u>\$ 198</u>	<u>\$ 161</u>	<u>\$ 9,125</u>	<u>\$ 8,247</u>	<u>10.65%</u>

### INDIVIDUAL FUND ANALYSIS

As the District completed the year, its governmental funds reported a combined fund balance of \$2,836,273, a \$976,947 increase from the 2011 fiscal year end balance of \$1,859,326. The District spent \$766,380 less than the prior fiscal year.

- The general fund received more revenue during fiscal year 2012 through state sources and tuition. The general fund expenditures decreased in instructional functional area \$247,191 compared to prior year. Overall expenditures decreased by \$258,573. The ending fund balance showed an increase of \$437,024 to \$1,005,471.
- The management levy fund increased due to instructional expenditures decreasing \$23,105 compared to prior year. The ending fund balance showed an increase of \$32,832 to \$550,965.
- The statewide sales, services and use tax received more revenue during fiscal year 2012 through local option sales tax. The capital projects fund expenditures decreased due to the demolition of old middle school building and renovation of the high school and central office in prior year. Overall expenditures decreased by \$448,252 compared to prior year. The ending fund balance showed an increase of \$322,212 to \$806,946.

## BUDGETARY HIGHLIGHTS

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

The following chart shows the original and amended budget for fiscal 2012 as well as the actual revenue and expenditures for the year:

		Budgetary Comparison Schedule (Expressed in Thousands)			
		Budget Amounts			
		Actual	Original	Final	Variance
<b>Revenues</b>					
Local sources	\$	5,698	\$ 5,467	\$ 5,467	\$ 231
Intermediate sources		1	-	-	1
State sources		4,921	5,004	5,004	(83)
Federal sources		621	520	520	101
<b>Total revenues</b>		<b>\$ 11,241</b>	<b>\$ 10,991</b>	<b>\$ 10,991</b>	<b>\$ 250</b>
<b>Expenditures</b>					
Instruction	\$	6,257	\$ 6,471	\$ 6,511	\$ 254
Student support		2,594	3,095	3,386	792
Non-instructional programs		425	469	520	95
Other expenses		1,242	1,445	1,445	203
<b>Total expenditures</b>		<b>\$ 10,518</b>	<b>\$ 11,480</b>	<b>\$ 11,862</b>	<b>\$ 1,344</b>

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### *Capital Assets*

At the end of fiscal year 2012, North Fayette Community School District had \$8,543,304 invested in a broad range of capital assets, including buildings, land and equipment for the governmental activities. For the enterprise funds, the District had \$85,566 invested in equipment in the school nutrition fund.

The District's governmental activities had depreciation expense of \$427,633 for fiscal 2012 and total accumulated depreciation of \$7,815,895 as of June 30, 2012. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

### ***Debt***

At year-end, the District had approximately \$2,154,000 in bonds and other debt compared to approximately \$2,203,000 last year. More detail is presented in Note 5 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that districts can issue to 5 percent of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt is significantly below this \$11,818,659 limit.

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

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

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

- The District has experienced declining enrollment for the past five years and will likely continue to see this trend.
- Further staff reductions including retirements will assist in keeping the District costs down.
- The District will also continue to seek ways to cut transportation and buildings/grounds costs.
- The District is talking with a neighboring district regarding whole grade sharing for the 2013-2014 school year. The District is considering the possibility of closing a building if an agreement can be reached.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2012

EXHIBIT A

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments			
Other	\$ 3,505,456	\$ 134,474	\$ 3,639,930
Receivables			
Property tax			
Delinquent	92,686		92,686
Succeeding year	3,713,456		3,713,456
Accounts	175		175
Due from other governments	575,719		575,719
Inventories		2,736	2,736
Capital assets, non-depreciable	128,450		128,450
Capital assets, net of accumulated depreciation	8,414,854	85,566	8,500,420
	<u>\$ 16,430,796</u>	<u>\$ 222,776</u>	<u>\$ 16,653,572</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 190,856		\$ 190,856
Salaries and benefits payable	869,122	\$ 20,775	889,897
Accrued interest payable	14,320		14,320
Deferred revenue			
Succeeding year property tax	3,713,456		3,713,456
Other	277,785	4,450	282,235
Long-term liabilities			
Portion due within one year			
Bonds payable	185,000		185,000
Real estate contract	39,886		39,886
Capital leases	116,112		116,112
Early retirement	150,515		150,515
Compensated absences	10,655		10,655
Portion due after one year			
Bonds payable	1,150,000		1,150,000
Real estate contract	86,473		86,473
Capital leases	319,885		319,885
Early retirement	95,128		95,128
Net OPEB liability	284,261		284,261
	<u>7,503,454</u>	<u>25,225</u>	<u>7,528,679</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,645,948	85,566	6,731,514
Restricted for			
Capital projects	806,946		806,946
Management levy purposes	550,965		550,965
Physical plant and equipment	294,054		294,054
Student activities	178,837		178,837
Unrestricted	450,592	111,985	562,577
	<u>8,927,342</u>	<u>197,551</u>	<u>9,124,893</u>
Total net assets	<u>8,927,342</u>	<u>197,551</u>	<u>9,124,893</u>
Total liabilities and net assets	<u>\$ 16,430,796</u>	<u>\$ 222,776</u>	<u>\$ 16,653,572</u>

See Notes to Financial Statements.

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
<b>Governmental activities</b>			
<b>Instruction</b>			
Regular instruction	\$ 3,668,850	\$ 157,986	\$ 1,038,269
Special instruction	1,260,438	41,603	43,917
Other instruction	1,294,790	17,695	89,766
	<u>6,224,078</u>	<u>217,284</u>	<u>1,171,952</u>
<b>Support services</b>			
Student services	332,178	362,054	
Instructional staff services	224,346		
Administration services	901,046		
Operation and maintenance plant services	671,634		
Transportation services	468,876	8,416	
	<u>2,598,080</u>	<u>370,470</u>	
<b>Other</b>			
Long-term debt interest	85,050		
Facilities acquisition	42,383		
AEA flowthrough	339,978		339,978
Depreciation (unallocated)	427,633		
	<u>895,044</u>		<u>339,978</u>
<b>Total governmental activities</b>	<b>9,717,202</b>	<b>587,754</b>	<b>1,511,930</b>
<b>Business-type activities</b>			
<b>Non-instructional programs</b>			
Nutrition services	425,504	236,118	226,097
<b>Total</b>	<b>\$ 10,142,706</b>	<b>\$ 823,872</b>	<b>\$ 1,738,027</b>
<b>General revenues</b>			
Property taxes levied for			
General purposes			
Management			
PPEL			
Statewide sales, services and use tax			
Unrestricted state grants			
Unrestricted investment earnings			
Loss on sale of equipment			
Other			
<b>Total general revenues</b>			
<b>Change in net assets</b>			
Net assets, beginning of year			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (2,472,595)		\$ (2,472,595)
(1,174,918)		(1,174,918)
(1,187,329)		(1,187,329)
(4,834,842)		(4,834,842)
29,876		29,876
(224,346)		(224,346)
(901,046)		(901,046)
(671,634)		(671,634)
(460,460)		(460,460)
(2,227,610)		(2,227,610)
(85,050)		(85,050)
(42,383)		(42,383)
-		-
(427,633)		(427,633)
(555,066)		(555,066)
(7,617,518)		(7,617,518)
	\$ 36,711	36,711
(7,617,518)	36,711	(7,580,807)
3,343,743		3,343,743
349,268		349,268
313,732		313,732
662,190		662,190
3,801,630		3,801,630
2,729	476	3,205
(219,966)		(219,966)
205,278		205,278
8,458,604	476	8,459,080
841,086	37,187	878,273
8,086,256	160,364	8,246,620
\$ 8,927,342	\$ 197,551	\$ 9,124,893

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

	General	Special Revenue Fund Management Levy	Capital Projects Fund Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and pooled investments					
Other	\$ 1,870,548	\$ 542,217	\$ 643,030	\$ 449,661	\$ 3,505,456
Receivables					
Property tax					
Delinquent	76,210	8,748		7,728	92,686
Succeeding year	3,049,080	350,000		314,376	3,713,456
Accounts	175				175
Due from other funds				15,502	15,502
Due from other governments	400,708		175,011		575,719
<b>Total assets</b>	<b>\$ 5,396,721</b>	<b>\$ 900,965</b>	<b>\$ 818,041</b>	<b>\$ 787,267</b>	<b>\$ 7,902,994</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities</b>					
Accounts payable	\$ 179,761		\$ 11,095		\$ 190,856
Salaries and benefits payable	869,122				869,122
Due to other funds	15,502				15,502
Deferred revenue					
Succeeding year property tax	3,049,080	\$ 350,000		\$ 314,376	3,713,456
Other	277,785				277,785
<b>Total liabilities</b>	<b>4,391,250</b>	<b>350,000</b>	<b>11,095</b>	<b>314,376</b>	<b>5,066,721</b>
<b>Fund balances</b>					
Restricted for					
Management levy purposes		550,965			550,965
Student activities				178,837	178,837
School infrastructure			806,946		806,946
Physical plant and equipment				294,054	294,054
Unassigned	1,005,471				1,005,471
<b>Total fund balances</b>	<b>1,005,471</b>	<b>550,965</b>	<b>806,946</b>	<b>472,891</b>	<b>2,836,273</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,396,721</b>	<b>\$ 900,965</b>	<b>\$ 818,041</b>	<b>\$ 787,267</b>	<b>\$ 7,902,994</b>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 2,836,273
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of \$ 7,815,895	8,543,304
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(1,335,000)
Real estate contract	(126,359)
Capital leases	(435,997)
Accrued interest	(14,320)
Compensated absences	(10,655)
Early retirement	(245,643)
Net OPEB liability	(284,261)
Net assets of governmental activities per Exhibit A	<u>\$ 8,927,342</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	General	Special Revenue Fund Management Levy	Capital Projects Fund Statewide Sales, Services and Use Tax	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Local sources					
Local property tax	\$ 3,343,743	\$ 349,268		\$ 313,732	\$ 4,006,743
Other	301,210	8,460	\$ 662,296	482,555	1,454,521
Intermediate sources	1,069				1,069
State sources	4,916,552	223		197	4,916,972
Federal sources	398,449			500	398,949
	<u>8,961,023</u>	<u>357,951</u>	<u>662,296</u>	<u>796,984</u>	<u>10,778,254</u>
<b>EXPENDITURES</b>					
Current					
Instruction					
Regular instruction	3,490,362	211,189			3,701,551
Special instruction	1,260,438				1,260,438
Other instruction	952,955			341,835	1,294,790
	<u>5,703,755</u>	<u>211,189</u>	<u>-</u>	<u>341,835</u>	<u>6,256,779</u>
Support services					
Student services	332,178				332,178
Instructional staff services	224,346				224,346
Administration services	850,981	39,410			890,391
Operation and maintenance plant services	613,740	64,665			678,405
Transportation services	459,021	9,855			468,876
	<u>2,480,266</u>	<u>113,930</u>	<u>-</u>	<u>-</u>	<u>2,594,196</u>
Other					
Long-term debt					
Principal				261,986	261,986
Interest and fiscal charges				82,102	82,102
Facilities acquisition			48,339	509,573	557,912
AEA flowthrough	339,978				339,978
	<u>339,978</u>	<u>-</u>	<u>48,339</u>	<u>853,661</u>	<u>1,241,978</u>
Total expenditures	<u>8,523,999</u>	<u>325,119</u>	<u>48,339</u>	<u>1,195,496</u>	<u>10,092,953</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>437,024</u>	<u>32,832</u>	<u>613,957</u>	<u>(398,512)</u>	<u>685,301</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in				344,088	344,088
Operating transfers (out)			(291,745)	(52,343)	(344,088)
Long-term debt proceeds				291,646	291,646
	<u>-</u>	<u>-</u>	<u>(291,745)</u>	<u>583,391</u>	<u>291,646</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	<u>437,024</u>	<u>32,832</u>	<u>322,212</u>	<u>184,879</u>	<u>976,947</u>
FUND BALANCE, beginning of year	<u>568,447</u>	<u>518,133</u>	<u>484,734</u>	<u>288,012</u>	<u>1,859,326</u>
FUND BALANCE, end of year	<u>\$ 1,005,471</u>	<u>\$ 550,965</u>	<u>\$ 806,946</u>	<u>\$ 472,891</u>	<u>\$ 2,836,273</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$	976,947
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.</p>		
Depreciation	\$ (427,633)	
Capital outlays	546,694	119,061
<p>Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Current year repayments exceeded issues, as follows:</p>		
Repaid	261,986	
Issued	(291,646)	(29,660)
The net effect of disposal of capital assets		(219,966)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
		(2,948)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	4,924	
Early retirement	73,945	
Net OPEB liability	(81,217)	(2,348)
Change in net assets of governmental activities per Exhibit B	\$	841,086

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2012

EXHIBIT E

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 134,474	\$ 7,663
Inventories	2,736	
Total current assets	137,210	7,663
<b>NONCURRENT ASSETS</b>		
Furniture and equipment	186,554	
Less accumulated depreciation	(100,988)	
Total noncurrent assets	85,566	-
Total assets	\$ 222,776	\$ 7,663
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Contracts and benefits payable	\$ 20,775	
Deferred revenue	4,450	
Total liabilities	25,225	\$ -
<b>NET ASSETS</b>		
Invested in capital assets	85,566	
Unrestricted	111,985	7,663
Total net assets	197,551	7,663
Total liabilities and net assets	\$ 222,776	\$ 7,663

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2012

EXHIBIT F

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
<b>OPERATING REVENUES</b>		
Local sources		
Charges for services	\$ 236,118	\$ 28,360
<b>OPERATING EXPENSES</b>		
Non-instructional programs		
Food service operations		
Salaries and benefits	197,313	
Supplies	215,447	
Depreciation	12,744	
Other		27,026
Total operating expenses	425,504	27,026
Operating (loss) income	(189,386)	1,334
<b>NONOPERATING REVENUES</b>		
Interest income	476	6
State sources	4,318	
Federal sources	221,779	
Total nonoperating revenues	226,573	6
Change in net assets	37,187	1,340
Net assets, beginning of year	160,364	6,323
Net assets, end of year	\$ 197,551	\$ 7,663

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2012

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from sale of lunches and breakfasts	\$ 236,118	
Cash payments to employees for services	(192,501)	
Cash payments to suppliers for goods and services	(215,563)	
Cash reimbursed by operating fund		\$ 28,360
Cash payments by operating activities		(27,026)
	<u>(171,946)</u>	<u>1,334</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State grants and federal grants received	226,097	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of equipment	(42,660)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	476	6
	11,967	1,340
CASH, beginning of year	122,507	6,323
CASH, end of year	<u>\$ 134,474</u>	<u>\$ 7,663</u>
<b>Reconciliation of operating (loss) income to net cash (used in) provided by operating activities</b>		
Operating (loss) income	\$ (189,386)	\$ 1,334
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities		
Depreciation	12,744	
Increase in inventories	(115)	
Increase in contracts and benefits payable	4,422	
Increase in deferred revenue	389	
	<u>(171,946)</u>	<u>1,334</u>

**Non-cash, noncapital financing activities:**

During the year ended June 30, 2012, the District received commodities valued at \$33,355.

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

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1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

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

b. Significant Accounting Policies

*Scope of Reporting Entity*

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

*Joint Venture*

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

*Jointly Governed Organizations*

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

*District-wide Financial Statements*

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

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

b. Significant Accounting Policies (Continued)

*District-wide Financial Statements (Continued)*

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

*Fund Financial Statements*

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

The funds of the financial reporting entity are described below:

*Governmental*

*General Fund*

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

*Management Levy-Special Revenue Fund*

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

*Capital Projects Fund*

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

*Proprietary Funds*

*Enterprise Fund*

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

*Internal Service Fund*

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

*Measurement Focus and Basis of Accounting*

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

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

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

b. Significant Accounting Policies (Continued)

*Measurement Focus and Basis of Accounting (Continued)*

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

- a. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School District considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred.
- b. The District-wide statements and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

The proprietary funds of the District applies all applicable GASB pronouncements, as well as following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

b. Significant Accounting Policies (Continued)

*Measurement Focus and Basis of Accounting (Continued)*

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

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

*Assets, Liabilities and Equity*

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

*Cash, Pooled Investments and Cash Equivalents*

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

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

*Property Tax Receivable*

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

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

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

*Interfund Transactions*

During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the District-wide statements.

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

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Equity (Continued)*

*Due from Other Governments*

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

*Inventories*

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

*Capital Assets*

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

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

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

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

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

*Salaries and Benefits Payable*

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2012 was used to calculate the salaries payable.

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

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Equity (Continued)*

*Deferred Revenue*

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

*Long-term Obligation*

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

*Compensated Absences*

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

*Fund Balance*

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

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

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

*Net Assets*

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

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

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

*Budgets and Budgetary Accounting*

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

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

b. Significant Accounting Policies (Continued)

*Assets, Liabilities and Equity (Continued)*  
*Management Estimates*

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

2. Deposits and Pooled Investments

The District's deposits in banks at June 30, 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Direct government obligation portfolio	\$ 2,028,348
Diversified portfolio	20,488
	\$ 2,048,836

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

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

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2012:

Governmental	
General fund	
Title I	\$ 25,788
Title IIA	35,214
Medicaid	1,372
State vocational aid	4,077
IDEA	21,547
Income surtax	275,202
Various programs	37,508
	400,708
Capital projects	
Statewide sales, services and use tax	175,011
	\$ 575,719

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

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

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
<b>Governmental activities</b>				
Land	\$ 128,450			\$ 128,450
<b>Capital assets being depreciated</b>				
Buildings	5,954,943	\$ 13,690	\$ 190,000	5,778,633
Improvements	4,627,620	47,750		4,675,370
Furniture and equipment	5,325,558	446,657		5,772,215
Infrastructure in progress	185,900	38,597	219,966	4,531
<b>Total capital assets being depreciated</b>	<b>16,094,021</b>	<b>546,694</b>	<b>409,966</b>	<b>16,230,749</b>
<b>Less accumulated depreciation for:</b>				
Buildings	2,316,644	115,733	190,000	2,242,377
Improvements	882,151	114,499		996,650
Furniture and equipment	4,379,467	197,401		4,576,868
<b>Total accumulated depreciation</b>	<b>7,578,262</b>	<b>427,633</b>	<b>190,000</b>	<b>7,815,895</b>
<b>Total capital assets being depreciated, net</b>	<b>8,515,759</b>	<b>119,061</b>	<b>219,966</b>	<b>8,414,854</b>
<b>Governmental activities</b>				
Capital assets	\$ 8,644,209	\$ 119,061	\$ 219,966	\$ 8,543,304
<b>Business-type activities</b>				
Furniture and equipment	\$ 156,187	\$ 42,662	\$ 12,295	\$ 186,554
Less accumulated depreciation	100,539	12,744	12,295	100,988
<b>Business-type activities</b>				
Capital assets, net	\$ 55,648	\$ 29,918	\$ None	\$ 85,566

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

<b>Governmental activities</b>	
Unallocated depreciation	\$ 427,633
<b>Total depreciation expense-governmental activities</b>	<b>\$ 427,633</b>
<b>Business-type activities</b>	
Food services	\$ 12,744

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
<b>Governmental activities</b>					
<b>Bonds</b>					
General obligation	\$ None		\$ None	\$ None	
Revenue bonds	1,515,000		180,000	1,335,000	\$ 185,000
	1,515,000		180,000	1,335,000	185,000
<b>Other liabilities</b>					
Capital leases	188,531		44,180	144,351	46,092
Real estate contract	164,165		37,806	126,359	39,886
Apple lease		\$ 291,646		291,646	70,020
Compensated absences	15,579	10,655	15,579	10,655	10,655
Early retirement	319,588	112,453	186,398	245,643	150,515
	687,863	414,754	283,963	818,654	317,168
<b>Governmental activities</b>					
Long-term liabilities	\$ 2,202,863	\$ 414,754	\$ 463,963	\$ 2,153,654	\$ 502,168

a. Real Estate Contract

The District entered into a real estate contract for the purchase of land for the construction of a bus barn. The note is due in annual installments of \$46,835 through May 15, 2015 including interest at 5.50%. The contract, which is secured by the land, had a balance of \$126,359 at June 30, 2012.

Year ending June 30,	Principal	Interest
2013	\$ 39,886	\$ 6,950
2014	42,079	4,756
2015	44,394	2,442
	\$ 126,359	\$ 14,148

b. Early Retirement

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

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

At June 30, 2012, the District has obligations to 16 participants with a total liability of \$245,643. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$186,398.

5. Long-term Debt Obligations (Continued)

c. Bonded Indebtedness

\$185,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue bonds due June 1, 2012 through June 1, 2013 plus interest semi-annually with interest rates of the bonds varying from 4.30% to 4.40%.

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

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

Year ending June 30,	Principal	Interest
2013	\$ 185,000	\$ 57,170
2014	110,000	49,030
2015	115,000	44,575
2016	115,000	39,860
2017	120,000	35,088
2018-2022	690,000	93,657
	\$ 1,335,000	\$ 319,380

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

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

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

NOTES TO FINANCIAL STATEMENTS

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5. Long-term Debt Obligations (Continued)

c. Bonded Indebtedness (Continued)

At June 30, 2012, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$ 236,373,181
Debt limit – 5% of total assessed valuation	\$ 11,818,659
Debt applicable to debt limit	
Capital leases	(435,997)
Real estate contract	(126,359)
Bonded debt outstanding	(1,335,000)
Legal debt margin	\$ 9,921,303

6. Capital Leases

The District has leased three buses and fifty apple computers plus computer equipment under capital leases. The leased assets are accounted for in the statewide sales, services and use tax, a capital projects fund. Capital assets under capital leases totaled \$469,306 at June 30, 2012. The following is a schedule of future minimum lease payments under the capital leases as of June 30, 2012:

	Year ending June 30,	Amount
	2013	\$ 130,412
	2014	130,412
	2015	130,412
	2016	78,070
		469,306
Less imputed interest		33,309
Present value of minimum lease payments		\$ 435,997

7. Due to/from Other Funds

As of June 30, 2012, interfund receivables and payables that resulted from various interfund transactions were as follows:

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

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

NOTES TO FINANCIAL STATEMENTS

8. Interfund Transfers

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

	Transfers In	Transfers Out
Capital projects fund		\$ 291,745
Physical plant and equipment levy fund		52,343
Debt service fund	\$ 344,088	
Total	\$ 344,088	\$ 344,088

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

9. Leases

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

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

Year ended June 30,			
2013	\$	23,234	
2014		23,234	
2015		21,298	
	\$	67,766	

Total lease expense for the year ended June 30, 2012 was \$23,234.

10. Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$401,975, \$342,770 and \$337,658 respectively, equal to the required contributions for each year.

11. Other Postemployment Benefits (OPEB)

*Plan Description*

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

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

*Funding Policy*

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

11. Other Postemployment Benefits (OPEB) (Continued)

*Annual OPEB Cost and Net OPEB Obligation*

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

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

Annual required contribution	\$	100,162
Interest on net OPEB obligation		5,076
Adjustment to annual required contribution		<u>(4,487)</u>
Annual OPEB cost		100,751
Contributions made		<u>(19,534)</u>
Increase in net OPEB obligation		81,217
Net OPEB obligation beginning of year		<u>203,044</u>
Net OPEB obligation end of year	\$	<u><u>284,261</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year end June 30, 2012.

For the year ended June 30, 2012, the District contributed \$19,534 to the medical plan for the OPEB obligation. Plan members eligible for benefits contributed \$None of the premium costs for the OPEB obligation.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 78,043	0%	\$ 159,410
June 30, 2011	61,490	29.04%	203,044
June 30, 2012	100,751	19.39%	284,261

*Funded Status and Funding Progress*

As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2012, the actuarial accrued liability was \$595,107, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$595,107. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3.923 million, and the ratio of the UAAL to covered payroll was 15.2%. As of June 30, 2012, there were no trust fund assets.

11. Other Postemployment Benefits (OPEB) (Continued)

*Actuarial Methods and Assumptions*

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

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

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

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

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

12. Employee Insurance Plan

Monthly payments of service fees and plan contributions are recorded as expenditures in the general fund at the time of payment to the Northeast Iowa Schools Insurance Trust (trust) maintained by Midwest Group Benefits Consultants, Inc. The trust's Board of Directors decided to terminate the self-funded health plans, effective July 1, 2009, and change to partially self-funded plans using fully insured health plans through Wellmark Blue Cross/Blue Shield. There were three new plans offered to the schools. The trust assumes liability for claims on its three plans as follows: Plan 1—between \$500 and \$5,000 for single coverage and \$1,000 and \$10,000 for family coverage, Plan 2—between \$1,000 and \$5,000 for single coverage and \$2,000 and \$10,000 for family coverage and Plan 3—between \$2,000 and \$5,000 for single coverage and \$4,000 and \$10,000 for family coverage. All plans include coinsurance and Plan 2 includes copayments. Claims in excess of the deductible are insured through the purchase of insurance. The District may be contingently liable for any claims in excess of funds available at June 30, 2012, since the pool arrangement allows the trust to make additional assessments to members. The District's share of the trust's liability for any unreported claim or assessment at June 30, 2012 was unavailable as of December 18, 2012. The District contributions to the trust for the years ended June 30, 2012, 2011, and 2010 were \$924,323, \$1,027,457 and \$938,600, respectively, which equaled the required contributions each year.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2012, no liability has been recorded in the District's financial statements. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance company coverage.

13. Risk Management

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

14. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$399,978 for the year ended June 30, 2012 and is recorded in the general fund by making a memorandum adjusting entry to the cash basis financial statements.

15. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose their deductible as well as having the option to have un-reimbursed medical and dependent care expenses deducted on a pre-tax basis. The District contributes \$710 per month for certified staff at least half time, \$655 for non-certified staff at least half time, and \$1,535 for administration staff. The difference between the District's contribution and the amount of health premium is put into a TSA or HSA of the employee's choice or subtracted from the employee's salary. There were 106 participants in the plan for the year ended June 30, 2012.

16. Contingencies

a. Grant Funding

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2012 significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

b. Insurance Plan

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

17. Commitments

The total outstanding construction and other commitments of the District at June 30, 2012 amount to \$492.

18. New Governmental Accounting Standards Board (GASB) Standards

The Governmental Accounting Standards Board (GASB) has issued six statements not yet implemented by the District. The statements which might impact the District are as follows:

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 fiscal year ending June 30, 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; issued December 2010, will be effective for fiscal year ending June 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance.

18. New Governmental Accounting Standards Board (GASB) Standards (Continued)

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011, will be effective for the fiscal year ending June 30, 2013. This statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis* – for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65, *Items Previously Classified as Assets and Liabilities*, issued March 2012, will be effective for the fiscal year ending June 30, 2014. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflow of resources, and recognizes as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement 66, *Technical Corrections – 2012*, an amendment of GASB Statements 10 and 62, issued March 2012, effective for fiscal year ending June 30, 2014. The objective of this statement is to improve accounting and financial reporting for governmental entities by resolving conflicting guidance in GASB Statements 54 and 62, on risk financing activities and operating leases.

GASB Statement 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, issued June 2012, will be effective for the fiscal year ended June 30, 2015. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions which are provided by other entities.

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

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
For the Year Ended June 30, 2012

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
<b>REVENUES</b>			
Local sources	\$ 5,461,264	\$ 236,594	\$ 5,697,858
Intermediate sources	1,069	-	1,069
State sources	4,916,972	4,318	4,921,290
Federal sources	398,949	221,779	620,728
<b>Total revenues</b>	<b>10,778,254</b>	<b>462,691</b>	<b>11,240,945</b>
<b>EXPENDITURES/EXPENSES</b>			
Instruction	6,256,779		6,256,779
Support services	2,594,196		2,594,196
Non-instructional		425,504	425,504
Other	1,241,978		1,241,978
<b>Total expenditures/expenses</b>	<b>10,092,953</b>	<b>425,504</b>	<b>10,518,457</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES</b>	<b>685,301</b>	<b>37,187</b>	<b>722,488</b>
<b>OTHER FINANCING SOURCES, NET</b>	<b>291,646</b>	<b>-</b>	<b>291,646</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES</b>	<b>976,947</b>	<b>37,187</b>	<b>1,014,134</b>
<b>FUND BALANCE, beginning of year</b>	<b>1,859,326</b>	<b>160,364</b>	<b>2,019,690</b>
<b>FUND BALANCE, end of year</b>	<b>\$ 2,836,273</b>	<b>\$ 197,551</b>	<b>\$ 3,033,824</b>

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 5,467,023	\$ 5,467,023	\$ 230,835
-	-	1,069
5,004,149	5,004,149	(82,859)
520,000	520,000	100,728
<u>10,991,172</u>	<u>10,991,172</u>	<u>249,773</u>
6,471,000	6,511,000	254,221
3,094,550	3,386,295	792,099
469,450	519,450	93,946
1,445,418	1,445,418	203,440
<u>11,480,418</u>	<u>11,862,163</u>	<u>1,343,706</u>
(489,246)	(870,991)	1,593,479
<u>-</u>	<u>-</u>	<u>291,646</u>
(489,246)	(870,991)	1,885,125
<u>2,045,677</u>	<u>2,045,677</u>	<u>(25,987)</u>
<u>\$ 1,556,431</u>	<u>\$ 1,174,686</u>	<u>\$ 1,859,138</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2012

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs, and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$381,745.

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

Fiscal Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 691	\$ 691	0.0%	\$ 4,792	14.4%
2010	July 1, 2008	-	\$ 676	\$ 676	0.0%	\$ 4,686	14.4%
2011	July 1, 2010	-	\$ 606	\$ 606	0.0%	\$ 4,092	14.8%
2012	July 1, 2010	-	\$ 595	\$ 595	0.0%	\$ 3,923	15.2%

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

INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of North Fayette Community School District as of and for the year ended June 30, 2012, and our report thereon dated December 18, 2012, which expressed an unqualified opinion on the financial statements, appears on pages 2-3. Our audit was performed for the purpose of forming opinions on such financial statements as a whole. The combining and individual nonmajor fund financial statements, comparative financial information and general fund revenue and expenditure analysis for 2012 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements, comparative financial information and general fund revenue and expenditure analysis for 2012 and the schedule of expenditures of federal awards are the responsibility of management and were 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with U.S. generally accepted auditing standards, the financial statements of North Fayette Community School District as of and for the years ending June 30, 2008 through 2011, none of which is presented herein, and we expressed unqualified opinions on those financial statements. Those audits were conducted for purposes of forming an opinion on the financial statements as a whole. The spending authority and estimated enrollment is presented for purposes of additional analysis and is not a required part of the financial statements. On page 46 the spending authority for fiscal year 2012 has not been audited and we express no opinion on it. On page 47 the estimated enrollment for fiscal year 2013 has not been audited and we express no opinion on it. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2008 through 2011 financial statements. The information has been subjected to the auditing procedures applied in the audits of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information set forth in the required supplementary information for the years ending June 30, 2008 through 2011 appearing on page 37 and pages 43 through 47, is fairly stated, in all material respects in relation to the financial statements from which it has been derived. The general purpose financial statements of North Fayette Community School District for the years ended June 30, 2005, 2006 and 2007 were audited by other auditors who expressed unqualified opinions on those financial statements. Their reports on the information presented on page 37 and pages 43 through 47 related to the 2005 to 2007 financial statements stated that, in their opinion, such information was fairly stated in all material respects in relation to the 2005 to 2007 financial statements taken as a whole.

Decorah, Iowa  
December 18, 2012

*Hacker, Nelson & Co., P.C.*

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2012

	Special Revenue Fund <u>Student Activity</u>	Capital Projects Fund <u>Physical Plant and Equipment Levy</u>	Debt Service	Total Nonmajor Funds
<b>ASSETS</b>				
Cash and pooled investments	\$ 178,837	\$ 270,824		\$ 449,661
Receivables				
Property tax				
Delinquent		7,728		7,728
Succeeding year		314,376		314,376
Due from other funds		15,502		15,502
	<u>\$ 178,837</u>	<u>\$ 608,430</u>	<u>\$ -</u>	<u>\$ 787,267</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Deferred revenue				
Succeeding year property tax		\$ 314,376		\$ 314,376
Total liabilities	<u>\$ -</u>	<u>314,376</u>	<u>\$ -</u>	<u>314,376</u>
<b>Fund balances</b>				
Restricted for				
Student activities	178,837			178,837
Physical plant and equipment		294,054		294,054
	<u>178,837</u>	<u>294,054</u>	<u>-</u>	<u>472,891</u>
Total liabilities and fund balances	<u>\$ 178,837</u>	<u>\$ 608,430</u>	<u>\$ -</u>	<u>\$ 787,267</u>

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 For the Year Ended June 30, 2012

	Special Revenue Fund <u>Student Activity</u>	Capital Projects Fund <u>Physical Plant and Equipment Levy</u>	Debt Service	Total Nonmajor Funds
<b>REVENUES</b>				
Local sources				
Property taxes		\$ 313,732		\$ 313,732
Other	\$ 363,117	119,438		482,555
State sources		197		197
Federal sources		500		500
<b>Total revenues</b>	<u>363,117</u>	<u>433,867</u>	<u>\$ -</u>	<u>796,984</u>
<b>EXPENDITURES</b>				
Current				
Instruction				
Other instruction	341,835			341,835
Other				
Facilities acquisition		509,573		509,573
Long-term debt				
Principal			261,986	261,986
Interest and fiscal charges			82,102	82,102
<b>Total expenditures</b>	<u>341,835</u>	<u>509,573</u>	<u>344,088</u>	<u>1,195,496</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>21,282</u>	<u>(75,706)</u>	<u>(344,088)</u>	<u>(398,512)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in			344,088	344,088
Transfers (out)		(52,343)		(52,343)
Long-term debt proceeds		291,646		291,646
	<u>-</u>	<u>239,303</u>	<u>344,088</u>	<u>583,391</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES</b>	<u>21,282</u>	<u>163,597</u>	<u>-</u>	<u>184,879</u>
<b>FUND BALANCE, beginning of year</b>	<u>157,555</u>	<u>130,457</u>	<u>-</u>	<u>288,012</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 178,837</u>	<u>\$ 294,054</u>	<u>\$ -</u>	<u>\$ 472,891</u>

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 For the Year Ended June 30, 2012

	Balance June 30, 2011	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2012
<b>Elementary School Activities:</b>				
Playground - fundraising	\$ 456	\$ 446		\$ 902
Hawkeye attendance - fundraising	4,084	652	\$ 652	4,084
West Union attendance - fundraising	1,479	2,665	686	3,458
Interest	1,115	264		1,379
NF Shop - resale	53	1,078		1,131
<b>Middle School Activities:</b>				
Athletics	5,793	7,963	11,750	2,006
Pop machine	2,101	1,723	1,649	2,175
Tag	11			11
Musical	2,489		368	2,121
Hawk athletics	2,979	1,618	985	3,612
<b>High School Activities:</b>				
Athletics	79,306	99,084	98,790	79,600
Interest	16	749		765
Speech	1,074	1,374	1,943	505
Speech fall play	5,297		184	5,113
Vocal music	3,398	5,444	5,519	3,323
Musical	3,712	7,705	4,622	6,795
Band	4,840	3,179	3,499	4,520
Art club	713	383	706	390
Yearbook	6,757	11,360	12,650	5,467
BPA	-	6,603	4,434	2,169
FFA	11,568	65,919	52,631	24,856
FHA	26	1,121	487	660
Honor Society	162		160	2
Student Council	848	2,772	2,845	775
Math/Science	735	12,219	12,053	901
Travel	-	1,756	1,756	-
German program	3,866	5,425		9,291
Spanish	1,888	115	283	1,720
Spanish bound	118	19,583	19,701	-
Cheerleading	940	120	393	667
Danceline	5,750	29,921	34,625	1,046
<b>Class of:</b>				
2011	516	12	(78)	606
2012	301		301	-
2013	1,455	5,648	6,205	898
2014		1,495		1,495
Activity ticket	-	7,748	6,748	1,000
Graduation fees	-	476	476	-
STW - Enterprise	1,295	52,810	53,402	703
Mini Arts Festival	2,414	454		2,868
HS Hawk store	-	143		143
Special Olympics	-	3,090	1,410	1,680
	<u>\$ 157,555</u>	<u>\$ 363,117</u>	<u>\$ 341,835</u>	<u>\$ 178,837</u>

See Independent Auditor's Report on the Supplementary Information.

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

	Modified Accrual		
	2012	2011	2010
<b>REVENUES</b>			
Local sources			
Local tax	\$ 4,006,743	\$ 3,833,759	\$ 3,788,960
Tuition		173,605	178,394
Other	1,454,521	1,212,913	956,330
Intermediate sources	1,069		
State sources	4,916,972	4,702,410	4,136,849
Federal sources	398,949	470,172	752,086
<b>Total revenues</b>	<b>\$ 10,778,254</b>	<b>\$ 10,392,859</b>	<b>\$ 9,812,619</b>
<b>EXPENDITURES</b>			
Current			
Instruction			
Regular instruction	\$ 3,701,551	\$ 4,000,235	\$ 3,838,255
Special instruction	1,260,438	1,224,310	1,049,182
Other instruction	1,294,790	1,355,178	1,446,876
Support services			
Student services	332,178	329,961	308,378
Instructional staff services	224,346	220,441	210,354
Administration services	890,391	849,450	816,489
Operation and maintenance plant services	678,405	668,806	774,120
Transportation services	468,876	470,649	416,350
Other			
Facilities acquisition	557,912	1,013,022	776,688
Long-term debt			
Principal	261,986	263,178	220,114
Interest and fiscal charges	82,102	83,173	81,137
AEA flowthrough	339,978	380,930	379,576
<b>Total expenditures</b>	<b>\$ 10,092,953</b>	<b>\$ 10,859,333</b>	<b>\$ 10,317,519</b>

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 4

Modified Accrual				
2009	2008	2007	2006	2005
\$ 3,589,066	\$ 3,574,782	\$ 3,972,590	\$ 3,828,672	\$ 3,871,344
170,160	185,900	179,932	178,189	168,181
1,331,429	1,455,768	1,020,161	573,398	528,874
			750	51,640
5,123,655	5,220,404	4,926,840	4,488,172	4,231,743
335,251	225,193	240,238	315,821	279,263
<u>\$ 10,549,561</u>	<u>\$ 10,662,047</u>	<u>\$ 10,339,761</u>	<u>\$ 9,385,002</u>	<u>\$ 9,131,045</u>
\$ 3,990,281	\$ 4,015,185	\$ 3,923,888	\$ 3,737,695	\$ 3,786,343
1,180,888	1,052,349	1,108,027	1,020,967	869,707
1,264,914	1,084,304	975,240	1,114,113	933,325
296,834	290,287	279,887	272,124	224,712
238,041	222,659	182,007	230,290	256,867
856,444	889,189	815,604	774,339	677,941
781,580	788,831	1,015,021	715,398	776,970
430,982	471,904	464,843	396,250	401,072
1,191,661	1,119,191	2,234,761	532,183	105,727
212,847	375,673	368,588	362,478	295,000
89,404	104,328	75,253	71,740	134,404
355,848	348,651	339,590	316,945	313,183
<u>\$ 10,889,724</u>	<u>\$ 10,762,551</u>	<u>\$ 11,782,709</u>	<u>\$ 9,544,522</u>	<u>\$ 8,775,251</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010-Title 1 Grants to Local Educational Agencies
  - CFDA Number 84.027- Rural Education Achievement Program
  - CFDA Number 84.389A- Title 1 Grants Basic LEA Grants Stabilization
  - CFDA Number 84.410-Educational Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) North Fayette Community School District did not qualify as a low-risk auditee.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

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Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Financial Report Preparation

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

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

Response and Corrective Action Planned

Management is cognizant of this limitation and will implement additional procedures whenever possible.

Conclusion

Response acknowledged.

II-B-12 Overlapping Duties

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

Response and Corrective Action Planned

Management is cognizant of this limitation and will implement additional controls where possible.

Conclusion

Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

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**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NONCOMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

Department of Education

Passed through the Iowa Department of Education

CFDA Number 84.010 - Title 1 Grants to Local Educational Agencies

CFDA Number 84.027- Rural Education Achievement Program

CFDA Number 84.389A - Title 1 Grants Basic LEA Grants Stabilization

CFDA Number 84.410- Educational Jobs Fund

Federal Award Year: 2012

See II-A-12 and II-B-12 above.

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

See management letter dated December 18, 2012

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

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Explanation</u>
II-A-11	Financial report preparation	Not corrected	Management does not have the necessary training to prepare year-end financial statements.
II-B-11	Overlapping duties	Not corrected	The District has limited staff and segregates duties to the best of their abilities.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2012

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
<b>Indirect</b>			
Department of Agriculture			
Passed Through Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY12	\$ 51,153
National School Lunch Program	10.555	FY12	137,521
			<u>188,674</u>
Food Distribution Program (non-cash)	10.550	FY12	<u>33,105</u>
Total Department of Agriculture			<u>221,779</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies	84.010	FY12	115,062
Title I Grants Basic LEA Grants Stabilization	84.389A	FY12	4,246
			<u>119,308</u>
Educational Jobs Fund	84.410	FY12	137,638
State Grants for Innovative Programs	84.298	FY12	5,343
Rural Education Achievement Program	84.027	FY12	43,366
Improving Teacher Quality State Grants	84.367	FY12	35,214
Safe and Drug-Free Schools and Communities	84.184	FY12	44
ARRA - State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act	84.394	FY12	<u>300</u>
Total Department of Education			<u>341,213</u>
			<u>\$ 562,992</u>

See Independent Auditor's Report on the Supplementary Information.

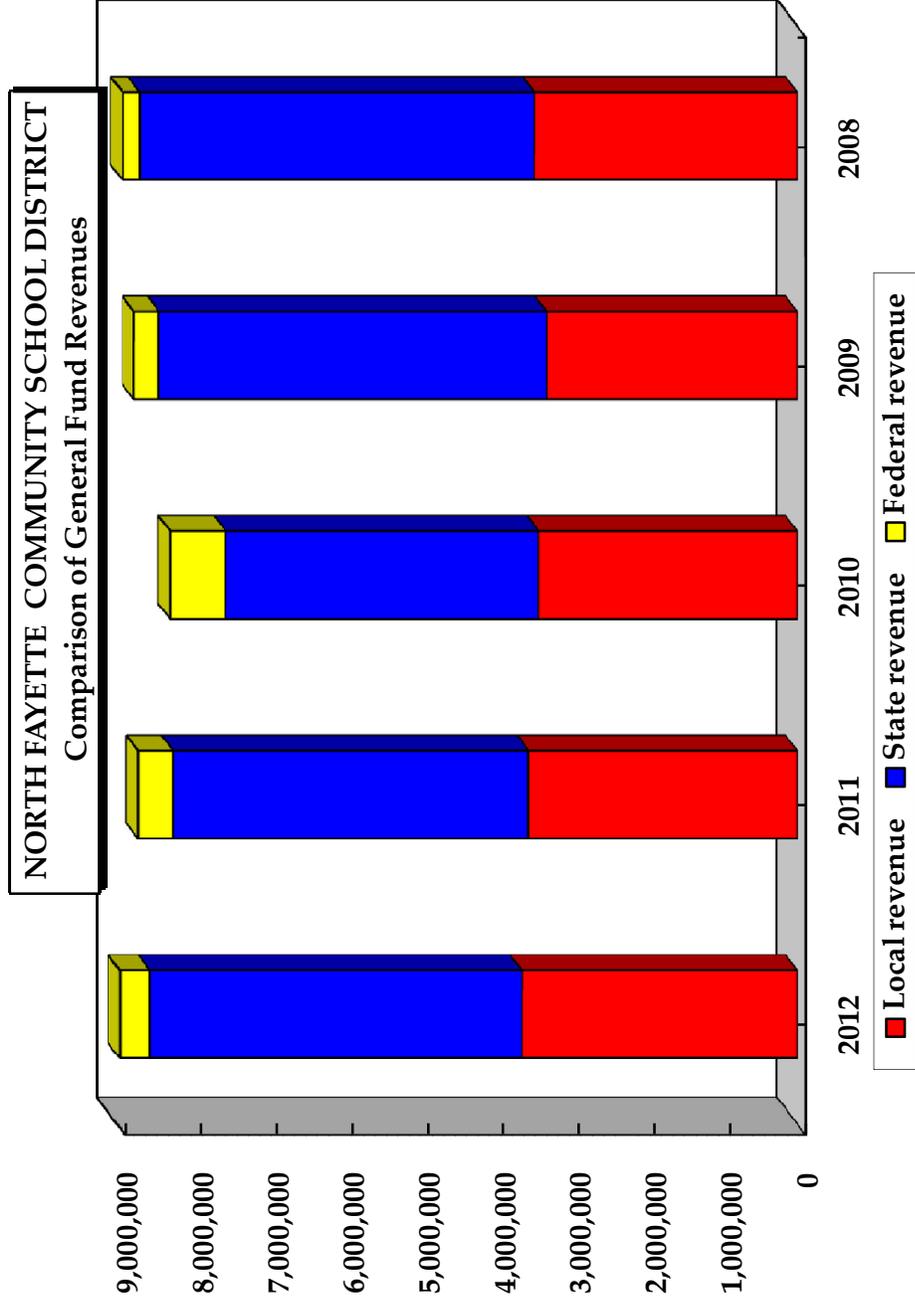
NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2012

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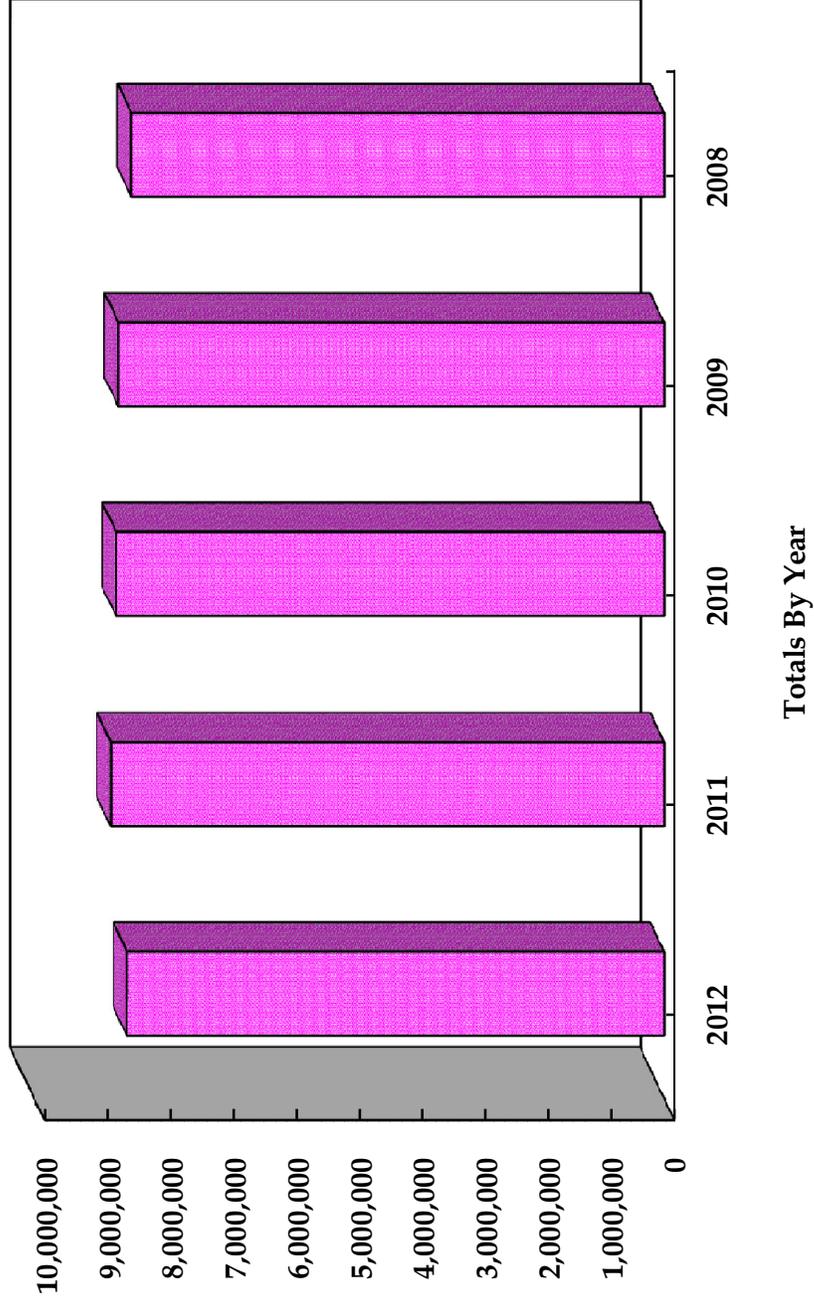
Note 1. **Basis of Presentation**

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

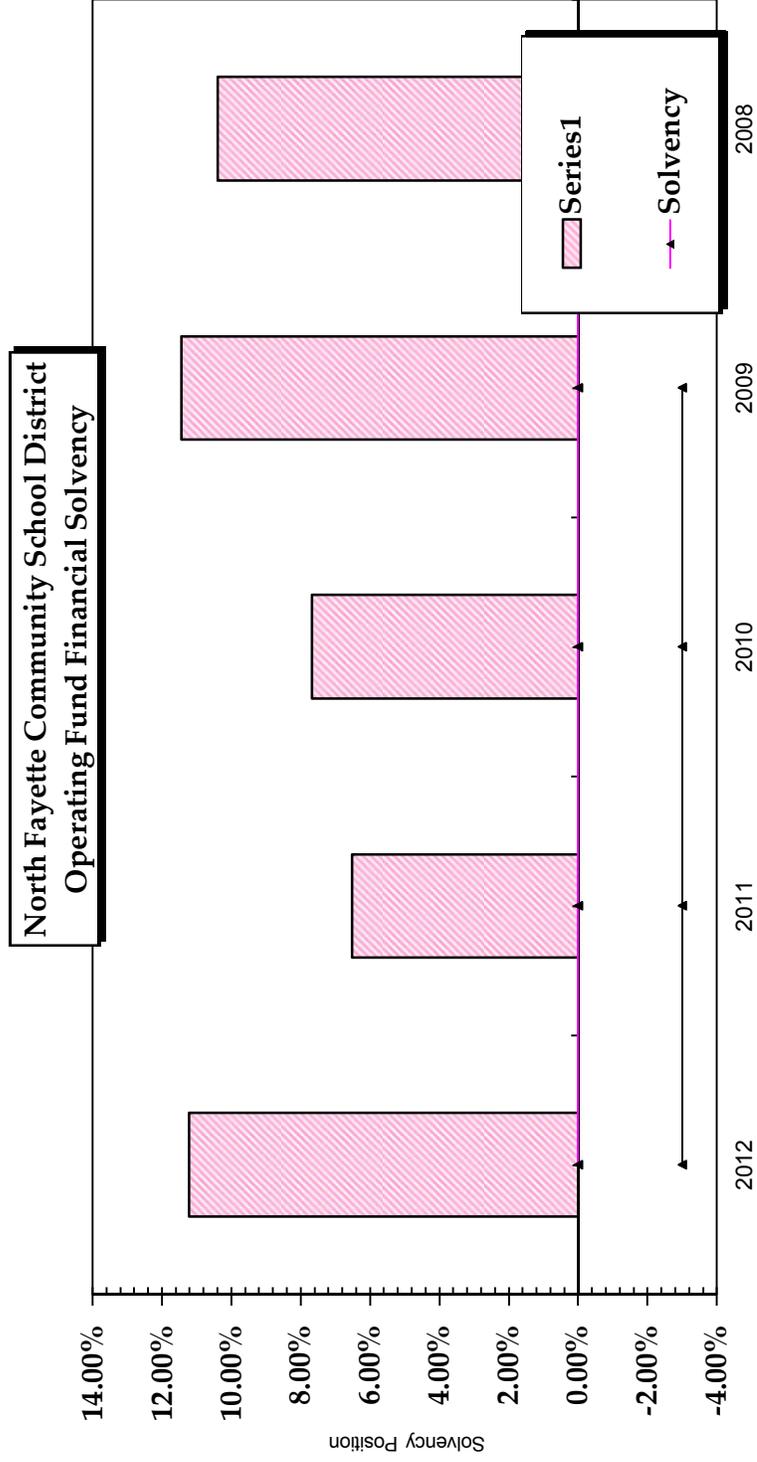


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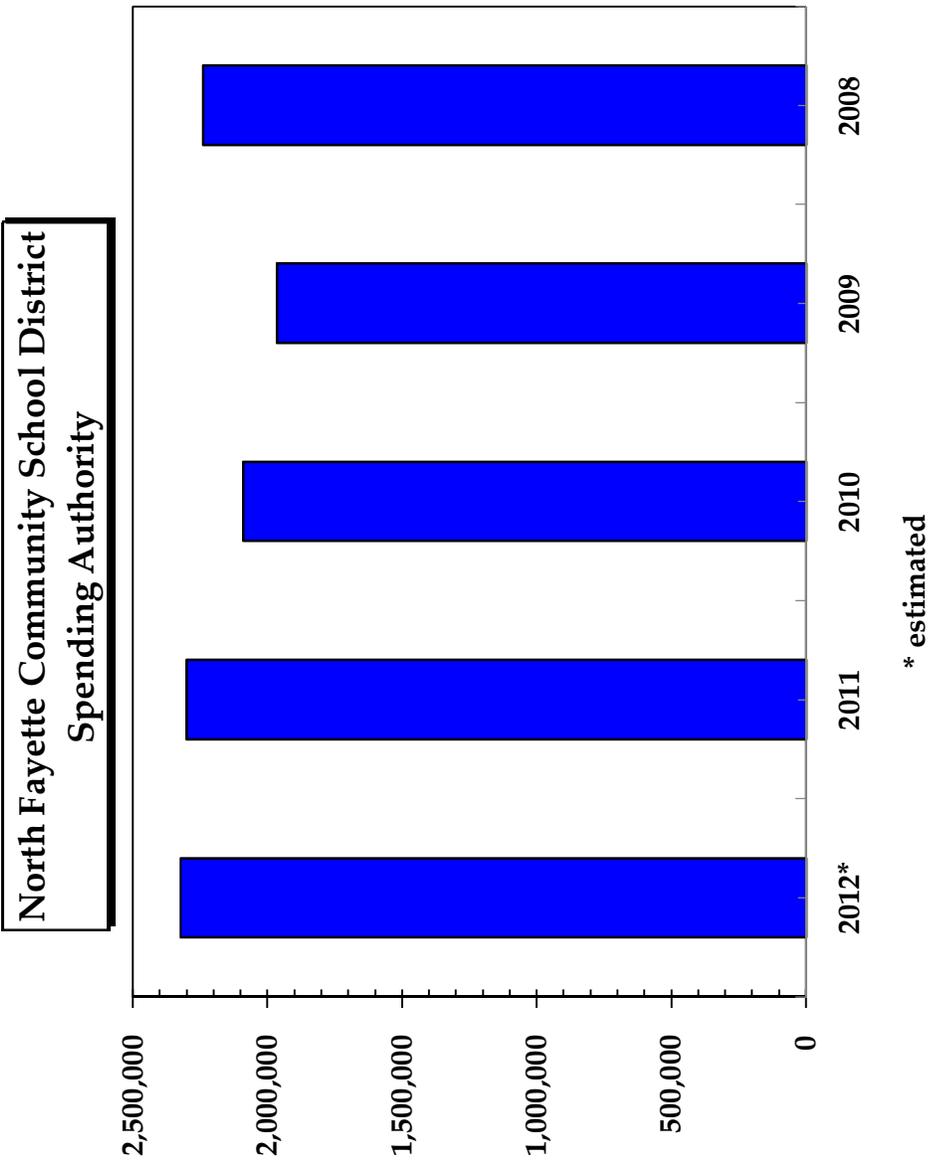
**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
Comparison of General Fund Expenditures**



See Independent Auditor's Report on the Supplementary Information.

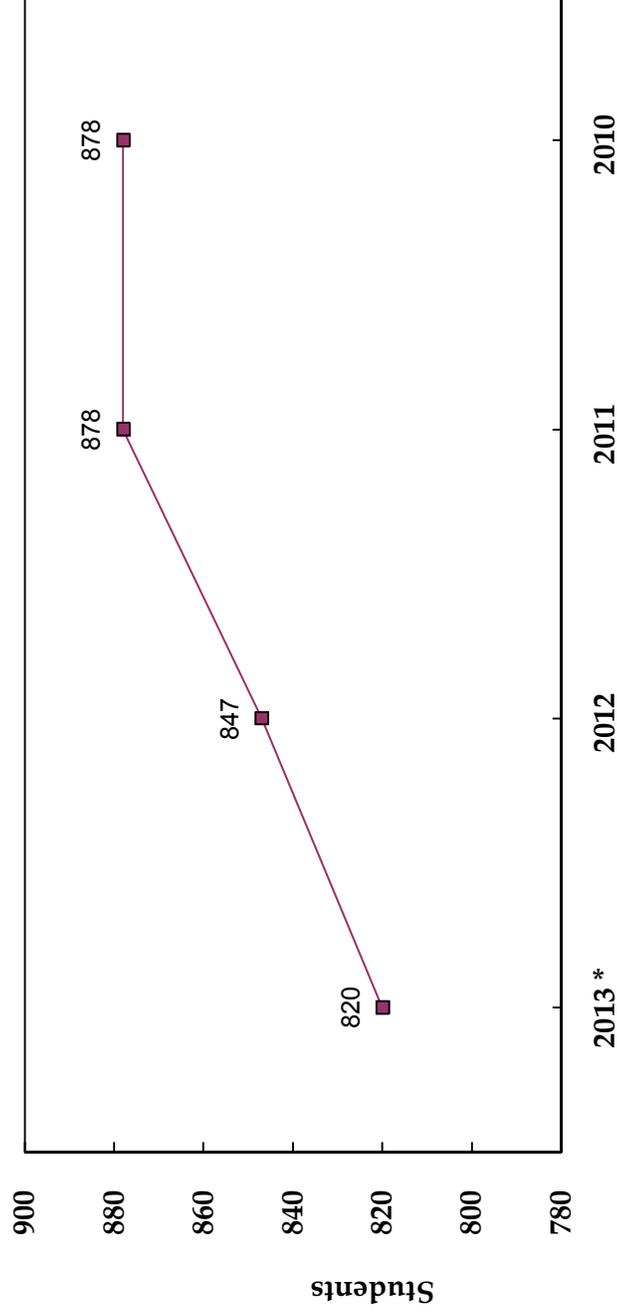


See Independent Auditor's Report on the Supplementary Information.



See Independent Auditor's Report on the Supplementary Information.

North Fayette Community School District  
Student Enrollment Data

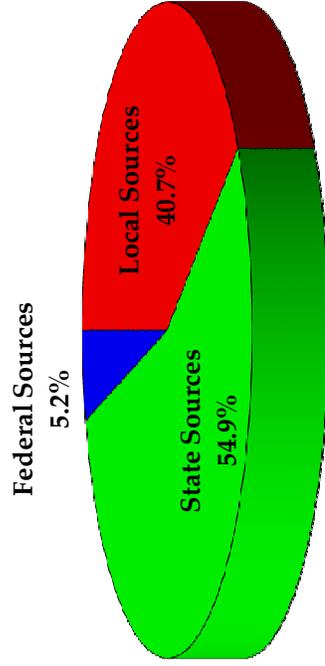


Resource: Total School Enrollment, Not Certified Enrollment, Line 11 of Certified Enrollment Form

\* estimated enrollment, has not been audited

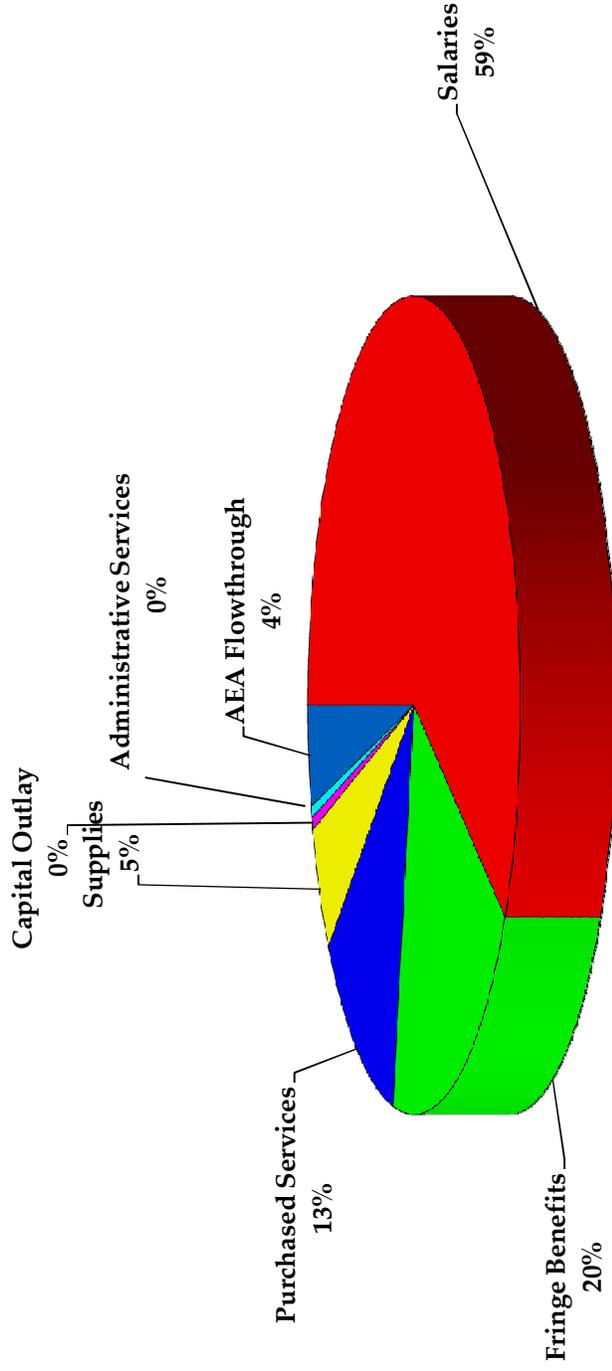
See Independent Auditor's Report on the Supplementary Information.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT  
General Fund Revenue Analysis Year Ended June 30, 2012**



See Independent Auditor's Report on the Supplementary Information.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT**  
**General Fund Expenditure Analysis Year Ended June 30, 2012**



See Independent Auditor's Report on the Supplementary Information.

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Fayette Community School District as of and for the year ended June 30, 2012, which collectively comprise North Fayette Community School District's basic financial statements and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items II-A-12 and II-B-12 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of North Fayette Community School District in a separate letter dated December 18, 2012.

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

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

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
December 18, 2012

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

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

Compliance

We have audited North Fayette Community School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of North Fayette Community School District's major federal programs for the year ended June 30, 2012. North Fayette Community School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of North Fayette Community School District's management. Our responsibility is to express an opinion on North Fayette Community School District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items II-A-12 and II-B-12. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
December 18, 2012

## MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of North Fayette Community School District for the year ended June 30, 2012, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 12 below are compliance comments required by the Iowa Auditor of State. A separate report dated December 18, 2012 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated December 18, 2012, on the financial statements of the North Fayette Community School District. Comment numbers 13, 14, 15 and 16 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

1. **Certified Budget**  
The certified budget was amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
2. **Questionable Expenditures**  
We noted no expenditures that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.
3. **Travel Expense**  
No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.
4. **Business Transactions**  
We noted no business transactions between the District and District officials and/or employees for the year ended June 30, 2012.
5. **Bond Coverage**  
Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. **Board Minutes**  
We noted no transactions requiring Board approval, which had not been, approved by the Board. We also noted no minutes and bills that had not been published as required.

7. Certified Enrollment

The District had an additional student on the certified enrollment that is now a resident in another school district and no longer attends North Fayette Community School District.

Recommendation

The District should make the changes on their program and notify the Department of Education.

Response

The District will make the changes in their system.

Conclusion

Response accepted.

8. Supplementary Weighting

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

9. Deposits and Investments

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

10. Certified Annual Report

The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.

11. Categorical Funding

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

12. Statewide Sales, Services and Use Tax

No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance		\$	484,734
Statewide sales, services and use tax			662,191
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	48,234	
Debt service for school infrastructure:			
General obligation debt		291,745	339,979
Ending balance		\$	<u>806,946</u>

12. Statewide Sales, Services and Use Tax (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	\$ 1.45	\$ 291,745
Physical plant and equipment levy	1.34	370,446
		<u>\$ 662,191</u>

13. Capital Asset Records

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

Recommendation

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

Response

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

Conclusion

Response accepted.

14. Disbursements

During our audit, we noted various items not in compliance with District procedures. From a total of sixty disbursements tested we noted twenty-four disbursements not in compliance with District procedures, including fifteen invoices not cancelled after it had been paid and twenty-three that did not document approval for actual payment. The majority of these items were for travel reimbursement or local business charges and other reoccurring monthly payments that received previous and post Board approval. From a total of twenty-one payroll disbursements we noted three didn't have complete documentation for deductions and one didn't have an updated contract. After subsequent review it appeared all tested disbursements were appropriate expenditures of public funds.

Recommendation

We recommend all invoices are properly authorized with signature approval and marked that it has been paid. We also recommend the purchase order be signed and attached to all applicable disbursements. We recommend for payroll disbursements that all deductions and payments have complete authorization documentation.

Response

The District does attach the check stub to all paid invoices. All paid invoices are audited and approved by the Board each month. We will implement additional procedures to address your recommendation. We will review all documentation and obtain the proper signatures for payroll deductions and payments.

Conclusion

Response accepted.

15. Bank Reconciliations

Reconciliations of book balances to the bank account by fund were not prepared by the District.

Recommendation

To improve financial accountability and control, a monthly reconciliation by fund of the book and bank balances should be prepared timely and retained by the District. Any differences should be investigated and resolved in a timely matter.

Response

We will implement a reconciliation of the book to bank balances including all cash and investment accounts.

Conclusion

Response accepted.

16. Outstanding Checks

The District's bank reconciliations included outstanding checks over a year old.

Recommendation

The District should review the checks to see if they have been cashed and if not to turn the checks over to the State Treasurer's office.

Response

We will review the outstanding checks and turn over to state agency, if appropriate.

Conclusion

Response accepted.

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

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

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

*Hacher, Nelson & Co., P.C.*

Decorah, Iowa  
December 18, 2012