

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

June 30, 2012

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Independent Auditor's Report

To the Board of Education of  
North Kossuth Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated June 26, 2013, on our consideration of North Kossuth Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 38 through 40 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 which considers it to be an essential part of the 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Kossuth Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

June 26, 2013

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2012 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,360,166 in fiscal 2011 to \$4,352,904 in fiscal 2012, while General Fund expenditures increased from \$3,948,654 in fiscal 2011 to \$4,095,437 in fiscal 2012. The District's General Fund balance increased from \$728,125 in fiscal 2011 to \$1,016,394 in fiscal 2012, a 40% increase.
- The decrease in General Fund revenues was attributable to a decrease in student enrollment.

### USING THIS ANNUAL REPORT

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

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

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

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

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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

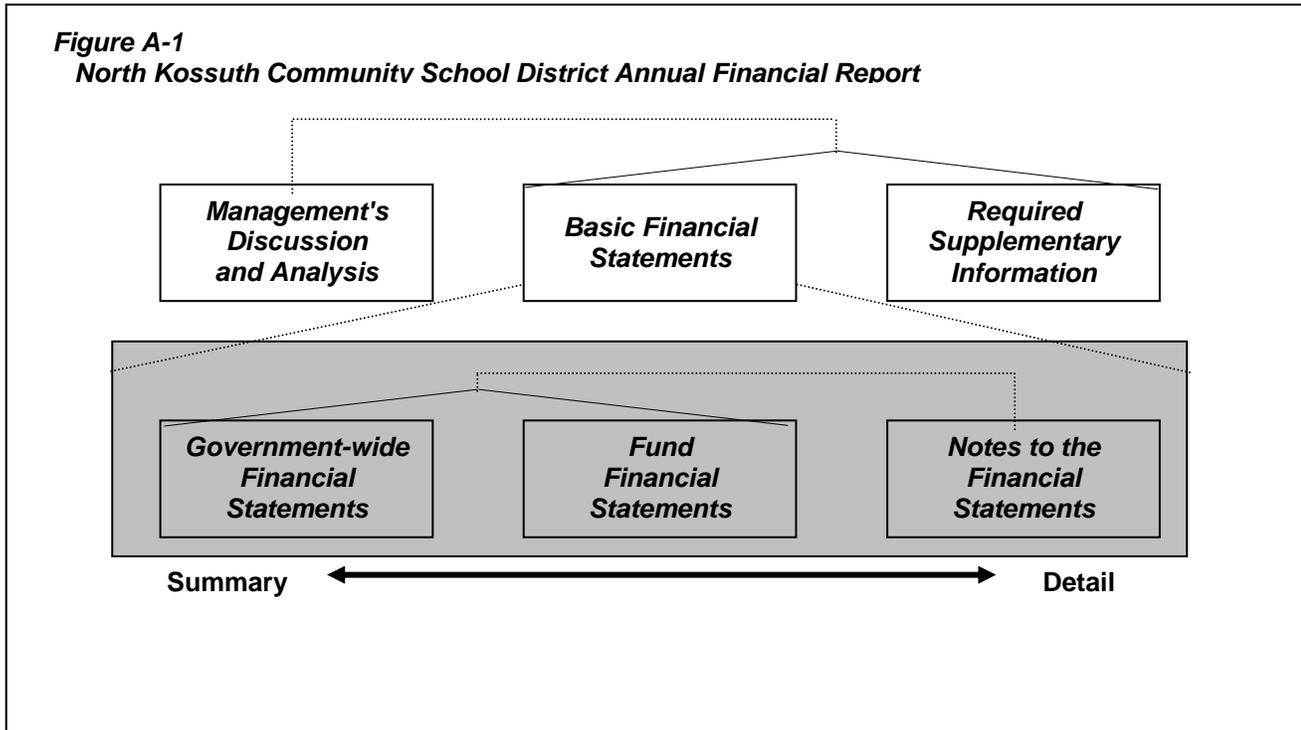


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, is the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has two internal service funds; one used to account for the District's employee flexible benefit plan and one used to reimburse employees for a portion of their health insurance deductible.

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain monies behalf of other entities.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2012	2011	2012	2011	2012	2011	2011-12
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,972,305	4,351,572	16,608	17,724	3,988,913	4,369,296	-9%
Capital assets	3,240,167	3,215,770	50,229	45,817	3,290,396	3,261,587	1%
<b>Total assets</b>	<b>7,212,472</b>	<b>7,567,342</b>	<b>66,837</b>	<b>63,541</b>	<b>7,279,309</b>	<b>7,630,883</b>	<b>-5%</b>
Long-term liabilities	246,612	204,729	3,317	2,148	249,929	206,877	21%
Other liabilities	2,322,553	2,715,880	1,980	2,342	2,324,533	2,718,222	-14%
<b>Total liabilities</b>	<b>2,569,165</b>	<b>2,920,609</b>	<b>5,297</b>	<b>4,490</b>	<b>2,574,462</b>	<b>2,925,099</b>	<b>-12%</b>
Net Assets:							
Invested in capital assets, net of related debt	3,240,167	3,085,770	50,229	45,817	3,290,396	3,131,587	5%
Restricted	362,408	727,145	-	-	362,408	727,145	-50%
Unrestricted	1,040,732	833,818	11,311	13,234	1,052,043	847,052	24%
<b>TOTAL NET ASSETS</b>	<b>4,643,307</b>	<b>4,646,733</b>	<b>61,540</b>	<b>59,051</b>	<b>4,704,847</b>	<b>4,705,784</b>	<b>&lt;-1%</b>

The District’s combined total net assets decreased by less than 1%, or approximately \$937, less than the prior year. The largest portion of the District’s net assets is invested in capital assets net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$364,737 or nearly 50% from the prior year. The decrease was primarily a result of an increase in the school infrastructure account balance (SAVE).

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$204,991, or 24%. This increase in unrestricted net assets was in part due to a reduction in expenses in the student support services and instruction; and an increase in local taxes and Medicaid payments.

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

Figure A-4

	Change in Net Assets						Percentage Change 2011-12
	Governmental		Business-type		Total		
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	583,311	356,711	60,291	76,478	643,602	433,189	49%
Operating grants & contributions	704,435	832,593	66,562	62,338	770,997	894,931	-14%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	2,366,896	2,247,271	-	-	2,366,896	2,247,271	5%
Income Surtax	254,352	374,389	-	-	254,352	374,389	-32%
Statewide sales & services tax	254,122	267,353	-	-	254,122	267,353	-5%
Unrestricted state grants	817,117	990,558	-	-	817,117	990,558	-18%
Unrestricted investment earnings	2,121	2,775	8	9	2,129	2,784	-24%
Other revenue	28,889	33,505	-	-	28,889	33,505	-14%
<b>Total Revenues</b>	<b>5,011,243</b>	<b>5,105,155</b>	<b>126,861</b>	<b>138,825</b>	<b>5,138,104</b>	<b>5,243,980</b>	<b>-2%</b>
Expenses:							
Instruction	3,335,573	2,951,113	-	-	3,335,573	2,951,113	13%
Support services	1,294,312	1,192,122	-	-	1,294,312	1,192,122	9%
Non-instructional programs	-	-	138,625	138,622	138,625	138,622	<1%
Other expenditures	370,531	260,996	-	-	370,531	260,996	42%
<b>Total expenses</b>	<b>5,000,416</b>	<b>4,404,231</b>	<b>138,625</b>	<b>138,622</b>	<b>5,139,041</b>	<b>4,542,853</b>	<b>13%</b>
<b>Change in net assets before transfers</b>	<b>10,827</b>	<b>700,924</b>	<b>(11,764)</b>	<b>203</b>	<b>(937)</b>	<b>701,127</b>	<b>100%</b>
<b>Transfer</b>	<b>(14,253)</b>	<b>(43,027)</b>	<b>14,253</b>	<b>43,027</b>	<b>-</b>	<b>-</b>	<b>0%</b>
<b>CHANGE IN NET ASSETS</b>	<b>(3,426)</b>	<b>657,897</b>	<b>2,489</b>	<b>43,230</b>	<b>(937)</b>	<b>701,127</b>	<b>-100%</b>
Net assets beginning of year	4,646,733	3,988,836	59,051	15,821	4,705,784	4,004,657	18%
<b>Net assets end of year</b>	<b>4,643,307</b>	<b>4,646,733</b>	<b>61,540</b>	<b>59,051</b>	<b>4,704,847</b>	<b>4,705,784</b>	<b>&lt;-1%</b>

Property tax and unrestricted state grants account for 62% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 90% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$5,011,243 and expenses were \$5,000,416. Decrease in revenue was mainly due to a decrease in student enrollment. Expenses increased mainly due to the addition of staff for instructional support services.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
	\$	\$		\$	\$	
Instruction	3,335,573	2,951,113	13%	2,186,938	1,931,865	13%
Support Services	1,294,312	1,192,122	9%	1,286,739	1,174,420	10%
Other Expenses	370,531	260,996	42%	238,993	108,642	120%
<b>TOTAL</b>	<b>5,000,416</b>	<b>4,404,231</b>	<b>14%</b>	<b>3,712,670</b>	<b>3,214,927</b>	<b>15%</b>

- The cost financed by users of the District's programs was \$583,311. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$704,435.
- The net cost of governmental activities was financed with \$2,875,370 in property and local other taxes and \$817,117 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$126,861 and expenses were \$138,625. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2012, the District saw a decrease in revenue because we ended the lunch and breakfast agreement with Main Street Manor for its residents.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,334,192, above last year's ending fund balances of \$1,276,448, an increase of \$57,744. The increase is due to the 28E agreements with neighboring school districts.

## **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. The General Fund balance increased from \$728,125 to \$1,016,394, a \$288,269 or a 40% increase. General Fund revenue decreased less than 1% mainly due to declining student enrollment. The increase is due to the cash reserve levy.
- The Capital Project Fund includes revenues from sales tax and from the physical plant and equipment property tax levy. These two revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting. The monies in the Capital Projects fund will be used for future capital improvements and equipment purchases.
  - The Physical Plant and Equipment Levy account balance increased from \$24,187 at June 30, 2011 to \$59,476 at June 30, 2012.
  - The Statewide Sales Tax account balance decreased from \$280,463 at June 30, 2011 to \$98,284 at June 30, 2012.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$59,051 at June 30, 2011 to \$61,540 at June 30, 2012, representing an increase of approximately 4%. New equipment was added to the kitchen inventory.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$142,660 more than budgeted receipts, a variance of 3%. The most significant variance resulted from the District receiving more in federal and local but less in state sources than originally anticipated.

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

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2012, the District had invested \$3,290,396, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 1% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$233,826.

The largest change in capital asset activity during the year occurred when improvements were made to existing structures. New windows were added to structure.

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2011-12
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
	\$	\$	\$	\$	\$	\$	
Land	30,725	30,725	-	-	30,725	30,725	0%
Buildings	2,182,366	2,256,904	-	-	2,182,366	2,256,904	-3%
Improvements	529,733	443,182	-	-	529,733	443,182	20%
Equipment & Furniture	497,343	484,959	50,229	45,817	547,572	530,776	3%
<b>TOTAL</b>	<b>3,240,167</b>	<b>3,215,770</b>	<b>50,229</b>	<b>45,817</b>	<b>3,290,396</b>	<b>3,261,587</b>	<b>1%</b>

**Long-Term Debt**

At June 30, 2012 the District had \$249,929 in capital loan notes and other long-term debt outstanding. This represents an increase of approximately 21% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

**Figure A-7**

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2011-2012
	2012	2011	
	\$	\$	
Governmental activities:			
Capital loan notes	-	130,000	-100%
Termination benefits	196,843	42,500	363%
Net OPEB liability	49,769	32,229	54%
Business type activities:			
Net OPEB liability	3,317	2,148	54%
Total	249,929	206,877	21%

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

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

- School financing is highly dependent upon student enrollment. The District's October 2012 enrollment continued to decrease slightly. This decrease in enrollment will adversely affect the District's funding for fiscal year 2013.
- Negotiations for the Master Contract with the North Kossuth Education Association will require an increase in salary and benefit costs. No employees are considering retirement at this time. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

- North Kossuth, Armstrong- Ringsted and Sentral schools will be entering into a new whole grade sharing arrangement that will start in 2012-13. Consolidated bus routes, shared staff and coaches, and shared expenses continue to affect the financial health of the district. North Kossuth employment needs will continue to be assessed.

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

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tricia Lofstrom, District Secretary/Treasurer and Business Manager, North Kossuth Community School District, 203 5<sup>th</sup> Street North, Swea City, IA 50590.

## BASIC FINANCIAL STATEMENTS

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,437,879	14,223	1,452,102
Receivables:			
Property tax:			
Delinquent	37,013	-	37,013
Succeeding year	1,803,736	-	1,803,736
Accounts	6,385	22	6,407
Due from other governments	687,292	-	687,292
Inventories	-	2,363	2,363
Capital assets, net of accumulated depreciation	3,240,167	50,229	3,290,396
<b>Total assets</b>	<u>7,212,472</u>	<u>66,837</u>	<u>7,279,309</u>
<b>Liabilities</b>			
Accounts payable	464,021	-	464,021
Salaries and benefits payable	54,796	380	55,176
Deferred revenue:			
Succeeding year property tax	1,803,736	-	1,803,736
Other	-	1,600	1,600
Long-term liabilities:			
Portion due within one year:			
Termination benefits	41,246	-	41,246
Portion due after one year:			
Termination benefits	155,597	-	155,597
Net OPEB liability	49,769	3,317	53,086
<b>Total liabilities</b>	<u>2,569,165</u>	<u>5,297</u>	<u>2,574,462</u>
<b>Net assets</b>			
Invested in capital assets	3,240,167	50,229	3,290,396
Restricted for:			
Categorical funding	45,753	-	45,753
School infrastructure	98,284	-	98,284
Physical plant and equipment levy	190,217	-	190,217
Student activities	28,154	-	28,154
Unrestricted	1,040,732	11,311	1,052,043
<b>Total net assets</b>	<u>4,643,307</u>	<u>61,540</u>	<u>4,704,847</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,957,013	391,942	301,273	-
Special	772,700	86,531	180,672	-
Other	605,860	104,838	83,379	-
	<u>3,335,573</u>	<u>583,311</u>	<u>565,324</u>	<u>-</u>
Support services:				
Student	58,345	-	-	-
Instructional staff	225,957	-	-	-
Administration	470,158	-	-	-
Operation and maintenance of plant	283,834	-	-	-
Transportation	256,018	-	7,573	-
	<u>1,294,312</u>	<u>-</u>	<u>7,573</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	128,853	-	-	-
Long-term debt interest	4,454	-	-	-
AEA flowthrough	131,538	-	131,538	-
Depreciation (unallocated)*	105,686	-	-	-
	<u>370,531</u>	<u>-</u>	<u>131,538</u>	<u>-</u>
Total governmental activities	5,000,416	583,311	704,435	-
Business type activities:				
Non-instructional programs:				
Food service operations	138,625	60,291	66,562	-
Total	<u>5,139,041</u>	<u>643,602</u>	<u>770,997</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				
<b>Change in net assets</b>				
Net assets beginning of year				
Net assets end of year				

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,263,798)	-	(1,263,798)
(505,497)	-	(505,497)
(417,643)	-	(417,643)
<u>(2,186,938)</u>	<u>-</u>	<u>(2,186,938)</u>
(58,345)	-	(58,345)
(225,957)	-	(225,957)
(470,158)	-	(470,158)
(283,834)	-	(283,834)
(248,445)	-	(248,445)
<u>(1,286,739)</u>	<u>-</u>	<u>(1,286,739)</u>
(128,853)	-	(128,853)
(4,454)	-	(4,454)
-	-	-
(105,686)	-	(105,686)
<u>(238,993)</u>	<u>-</u>	<u>(238,993)</u>
(3,712,670)	-	(3,712,670)
-	(11,772)	(11,772)
<u>(3,712,670)</u>	<u>(11,772)</u>	<u>(3,724,442)</u>
2,181,458	-	2,181,458
185,438	-	185,438
254,352	-	254,352
254,122	-	254,122
817,117	-	817,117
2,121	8	2,129
28,889	-	28,889
3,723,497	8	3,723,505
(14,253)	14,253	-
<u>3,709,244</u>	<u>14,261</u>	<u>3,723,505</u>
(3,426)	2,489	(937)
4,646,733	59,051	4,705,784
<u>4,643,307</u>	<u>61,540</u>	<u>4,704,847</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	1,116,899	116,207	169,390	1,402,496
Receivables:				
Property tax:				
Delinquent	34,203	2,810	-	37,013
Succeeding year	1,664,028	64,708	75,000	1,803,736
Accounts	5,350	-	1,017	6,367
Due from other governments	515,894	170,797	601	687,292
<b>Total assets</b>	<u>3,336,374</u>	<u>354,522</u>	<u>246,008</u>	<u>3,936,904</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	451,738	1,313	10,970	464,021
Salaries and benefits payable	54,796	-	-	54,796
Deferred revenue:				
Succeeding year property tax	1,664,028	64,708	75,000	1,803,736
Income surtax	149,418	130,741	-	280,159
Total liabilities	<u>2,319,980</u>	<u>196,762</u>	<u>85,970</u>	<u>2,602,712</u>
Fund balances:				
Restricted for:				
Categorical funding	45,753	-	-	45,753
Management levy purposes	-	-	131,884	131,884
Student activities	-	-	28,154	28,154
School infrastructure	-	98,284	-	98,284
Physical plant and equipment	-	59,476	-	59,476
Unassigned	970,641	-	-	970,641
Total fund balances	<u>1,016,394</u>	<u>157,760</u>	<u>160,038</u>	<u>1,334,192</u>
<b>Total liabilities and fund balances</b>	<u>3,336,374</u>	<u>354,522</u>	<u>246,008</u>	<u>3,936,904</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2012

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,334,192
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,240,167
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	280,159
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and employee flexible benefit plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	35,401
Long-term liabilities, termination benefits and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(246,612)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>4,643,307</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,332,208	571,468	-	2,903,676
Tuition	468,781	211	-	468,992
Other	30,363	-	91,801	122,164
State sources	1,227,618	-	-	1,227,618
Federal sources	293,934	-	-	293,934
Total revenues	<u>4,352,904</u>	<u>571,679</u>	<u>91,801</u>	<u>5,016,384</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,802,156	-	18,140	1,820,296
Special	769,192	-	-	769,192
Other	503,659	-	105,003	608,662
	<u>3,075,007</u>	<u>-</u>	<u>123,143</u>	<u>3,198,150</u>
Support services:				
Student	59,859	-	-	59,859
Instructional staff	6,945	219,012	-	225,957
Administration	427,526	11,790	27,565	466,881
Operation and maintenance of plant	200,135	72,009	19,683	291,827
Transportation	194,427	44,454	5,045	243,926
	<u>888,892</u>	<u>347,265</u>	<u>52,293</u>	<u>1,288,450</u>
Other expenditures:				
Facilities acquisition	-	246,552	-	246,552
Long-term debt:				
Principal	-	-	130,000	130,000
Interest and fiscal charges	-	-	5,245	5,245
AEA flowthrough	131,538	-	-	131,538
	<u>131,538</u>	<u>246,552</u>	<u>135,245</u>	<u>513,335</u>
Total expenditures	<u>4,095,437</u>	<u>593,817</u>	<u>310,681</u>	<u>4,999,935</u>
Excess (deficiency) of revenues over (under) expenditures	<u>257,467</u>	<u>(22,138)</u>	<u>(218,880)</u>	<u>16,449</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	-	10,493	-	10,493
Sales of materials and equipment	30,802	-	-	30,802
Operating transfers in	-	-	135,245	135,245
Operating transfers out	-	(135,245)	-	(135,245)
Total other financing sources (uses)	<u>30,802</u>	<u>(124,752)</u>	<u>135,245</u>	<u>41,295</u>
Net change in fund balances	288,269	(146,890)	(83,635)	57,744
Fund balances beginning of year	728,125	304,650	243,673	1,276,448
Fund balances end of year	<u>1,016,394</u>	<u>157,760</u>	<u>160,038</u>	<u>1,334,192</u>

See notes to financial statements.

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds to the  
Statement of Activities

Year ended June 30, 2012

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		57,744
<b><i>Amounts reported for governmental activities in the Statement of Activities are different because:</i></b>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay adjustments in the current year are as follows:		
Basis in capital assets sold	(18,130)	
Expenditures for capital assets	266,512	
Depreciation expense	<u>(223,985)</u>	24,397
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		(28,306)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		130,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		791
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	(154,343)	
Other postemployment benefits	<u>(17,540)</u>	(171,883)
An internal service fund is used by the District's management to charge the costs of the health insurance deductible reimbursement program and employee flexible benefit plan to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>(16,169)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(3,426)</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2012

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
<b>Assets</b>		
Cash and cash equivalents	14,223	35,383
Accounts receivable	22	18
Inventories	2,363	-
Capital assets, net of accumulated depreciation	<u>50,229</u>	<u>-</u>
<b>Total assets</b>	<u>66,837</u>	<u>35,401</u>
<b>Liabilities</b>		
Salaries and benefits payable	380	-
Deferred revenue	1,600	-
Net OPEB liability	<u>3,317</u>	<u>-</u>
<b>Total liabilities</b>	<u>5,297</u>	<u>-</u>
<b>Net assets</b>		
Invested in capital assets	50,229	-
Unrestricted	<u>11,311</u>	<u>35,401</u>
<b>Total net assets</b>	<u><u>61,540</u></u>	<u><u>35,401</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses,  
and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2012

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
Operating revenues:		
Local sources:		
Charges for service	60,291	28,692
Operating expenses:		
Non-instructional programs:		
Salaries	36,063	-
Benefits	21,472	29,341
Purchased services	714	15,539
Supplies	70,535	-
Depreciation	9,841	-
Total operating expenses	<u>138,625</u>	<u>44,880</u>
Operating income (loss)	<u>(78,334)</u>	<u>(16,188)</u>
Non-operating revenues:		
State sources	1,161	-
Federal sources	65,401	-
Interest income	8	19
Total non-operating revenues	<u>66,570</u>	<u>19</u>
Income (loss) before contributions	(11,764)	(16,169)
Capital contributions	<u>14,253</u>	<u>-</u>
Change in net assets	2,489	(16,169)
Net assets beginning of year	<u>59,051</u>	<u>51,570</u>
Net assets end of year	<u><u>61,540</u></u>	<u><u>35,401</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2012

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	61,950	-
Cash from services provided to other funds	-	28,682
Cash payments to employees for services	(56,240)	(44,880)
Cash payments to suppliers for goods or services	(56,196)	-
Net cash used by operating activities	<u>(50,486)</u>	<u>(16,198)</u>
Cash flows from non-capital financing activities:		
Loan from (repaid to) General Fund	(396)	-
State grants received	1,161	-
Federal grants received	59,646	-
Net cash provided by non-capital financing activities	<u>60,411</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>8</u>	<u>19</u>
Net increase (decrease) in cash and cash equivalents	9,933	(16,179)
Cash and cash equivalents at beginning of year	<u>4,290</u>	<u>51,562</u>
Cash and cash equivalents at end of year	<u><u>14,223</u></u>	<u><u>35,383</u></u>
<b>Reconciliation of operating income (loss) to net cash used by operating activities:</b>		
Operating income (loss)	(78,334)	(16,188)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Commodities used	5,755	-
Depreciation	9,841	-
Decrease (increase) in inventories	9,633	-
Decrease (increase) in accounts receivable	1,812	(10)
(Decrease) increase in accounts payable	(335)	-
(Decrease) increase in salaries and benefits payable	126	-
(Decrease) increase in deferred revenue	(153)	-
(Decrease) increase in other postemployment benefits	1,169	-
Net cash used by operating activities	<u>(50,486)</u>	<u>(16,198)</u>

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

During the year ended June 30, 2012, the District received \$5,755 of federal commodities.

During the year ended June 30, 2012 the School Nutrition Fund received \$14,253 of equipment that was purchased by the Capital Projects Fund.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2012

	Private Purpose Trust Scholarship	Agency
	\$	\$
<b>Assets</b>		
Cash and pooled investments	1,668	6,087
<b>Liabilities</b>		
Other payables	-	6,087
<b>Net Assets</b>		
Reserved for scholarships	<u>1,668</u>	<u>-</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2012

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions	-
Deductions	<u>-</u>
Change in net assets	-
Net assets beginning of year	<u>1,668</u>
Net assets end of year	<u><u>1,668</u></u>

# NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2012

### 1. Summary of Significant Accounting Policies

North Kossuth Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Bancroft, Ledyard and Swea City, Iowa and the predominately agricultural territory in a portion of Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

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

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's health insurance deductible reimbursement plan and employee flexible benefit plan.

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

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, 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 fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011, through June 30, 2012, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	2,000
Buildings	2,000
Improvements other than buildings	2,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Improvements other than buildings	20-40 years
Intangibles	5-40 years
Furniture and equipment	5-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

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

Unassigned – All amounts not included in other spendable classifications.

E. Budgeting and Budgetary Control

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

**2. Cash 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; 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, which are valued at an amortized cost of \$6,324 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

### 3. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Debt Service Fund	Capital Projects Fund	135,245

The transfer from the Capital Projects Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	30,725	-	-	30,725
Capital assets being depreciated:				
Buildings	3,339,398	-	-	3,339,398
Improvements other than buildings	510,215	117,699	-	627,914
Furniture and equipment	2,012,690	148,813	183,724	1,977,779
Total capital assets being deprec.	<u>5,862,303</u>	<u>266,512</u>	<u>183,724</u>	<u>5,945,091</u>
Less accumulated depreciation for:				
Buildings	1,082,494	74,538	-	1,157,032
Improvements other than buildings	67,033	31,148	-	98,181
Furniture and equipment	1,527,731	118,299	165,594	1,480,436
Total accumulated depreciation	<u>2,677,258</u>	<u>223,985</u>	<u>165,594</u>	<u>2,735,649</u>
Total capital assets being depreciated, net	<u>3,185,045</u>	<u>42,527</u>	<u>18,130</u>	<u>3,209,442</u>
Governmental activities capital assets, net	<u>3,215,770</u>	<u>42,527</u>	<u>18,130</u>	<u>3,240,167</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	129,798	14,253	-	144,051
Less accumulated depreciation	<u>83,981</u>	<u>9,841</u>	<u>-</u>	<u>93,822</u>
Business type activities capital assets, net	<u>45,817</u>	<u>4,412</u>	<u>-</u>	<u>50,229</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	79,189
Other instruction	1,318
Support services:	
Student support	2,191
Administration services	6,347
Operation and maintenance of plant services	7,552
Transportation	<u>21,702</u>
	118,299
Unallocated depreciation	<u>105,686</u>
Total depreciation expense – governmental activities	<u>223,985</u>
Business type activities:	
Food services	<u>9,841</u>

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
Capital loan notes	130,000	-	130,000	-	-
Termination benefits	42,500	171,843	17,500	196,843	41,246
Net OPEB liability	<u>32,229</u>	<u>17,540</u>	<u>-</u>	<u>49,769</u>	<u>-</u>
Total	<u>204,729</u>	<u>189,383</u>	<u>147,500</u>	<u>246,612</u>	<u>41,246</u>
Business type activities:					
Net OPEB liability	<u>2,148</u>	<u>1,169</u>	<u>-</u>	<u>3,317</u>	<u>-</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during the years ended June 30, 2010 and 2012. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2012, the District has obligations to seven participants with a total liability of \$196,843. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$17,500.

## **6. Pension and Retirement Benefits**

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$154,661 \$136,257 and \$130,917 respectively, equal to the required contributions for each year.

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 74 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

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	36,486
Interest on net OPEB obligation	859
Adjustment to annual required contribution	<u>(3,363)</u>
Annual OPEB cost	33,982
Contributions made	<u>15,273</u>
Increase in net OPEB obligation	18,709
Net OPEB obligation beginning of year	<u>34,377</u>
Net OPEB obligation end of year	<u>53,086</u>

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

For the year ended June 30, 2012, the District contributed \$15,273 to the medical plan. Plan members eligible for benefits contributed \$8,303.

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

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
	\$	%	\$
2010	32,285	43.7%	18,165
2011	31,864	49.1%	34,377
2012	33,982	44.9%	53,086

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$240,526, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$240,526. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,696,000 and the ratio of the UAAL to covered payroll was 15.7%. As of June 30, 2012, there were no trust fund assets.

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

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

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

Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000.

The UAAL is being amortized over 30 years.

**8. Risk Management**

North Kossuth 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.

**9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$131,538 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.

**10. Lease Commitment**

The District has leased copy machines under operating leases. The remaining payments required under the lease are as follows:

Year Ended June 30,	Copier Lease Payments
	\$
2013	7,176
2014	7,176
2015	7,176
2016	7,176
2017	1,196

The District has also leased three buses under operating leases. The remaining payments required under the lease are as follows:

Year Ended June 30,	Bus Lease Payments
	\$
2013	140,500

**11. Categorical Funding**

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

Program	Amount
	\$
Teacher salary supplement	39,375
Educator quality, professional development	6,378
	<u>45,753</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2012

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,494,832	60,334	3,555,166	3,508,527	3,508,527	46,639
State sources	1,227,618	1,161	1,228,779	1,272,093	1,272,093	(43,314)
Federal sources	293,934	65,401	359,335	220,000	220,000	139,335
Total revenues	<u>5,016,384</u>	<u>126,896</u>	<u>5,143,280</u>	<u>5,000,620</u>	<u>5,000,620</u>	<u>142,660</u>
Expenditures/Expenses:						
Instruction	3,198,150	-	3,198,150	3,217,053	3,217,053	18,903
Support services	1,288,450	-	1,288,450	1,302,700	1,302,700	14,250
Non-instructional programs	-	138,660	138,660	154,000	154,000	15,340
Other expenditures	513,335	-	513,335	735,499	735,499	222,164
Total expenditures/expenses	<u>4,999,935</u>	<u>138,660</u>	<u>5,138,595</u>	<u>5,409,252</u>	<u>5,409,252</u>	<u>270,657</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	16,449	(11,764)	4,685	(408,632)	(408,632)	413,317
Other financing sources (uses) net	<u>41,295</u>	<u>14,253</u>	<u>55,548</u>	<u>135,000</u>	<u>135,000</u>	<u>(79,452)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	57,744	2,489	60,233	(273,632)	(273,632)	333,865
Balance beginning of year	<u>1,276,448</u>	<u>59,051</u>	<u>1,335,499</u>	<u>881,648</u>	<u>881,648</u>	<u>453,851</u>
Balance end of year	<u><u>1,334,192</u></u>	<u><u>61,540</u></u>	<u><u>1,395,732</u></u>	<u><u>608,016</u></u>	<u><u>608,016</u></u>	<u><u>787,716</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function 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. The District did not amend its budget during the year.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT  
Schedule of Funding Progress for the Retiree Health Plan  
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	282,722	282,722	0.0%	1,760,000	16.1%
2011	July 1, 2009	-	263,949	263,949	0.0%	1,685,000	15.7%
2012	July 1, 2009	-	240,526	240,526	0.0%	1,696,000	14.2%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2012

Assets	Special Revenue Funds		Debt Service	Total
	Management Levy	Student Activity		
	\$	\$	\$	\$
Cash and pooled investments	131,884	37,506	-	169,390
Receivables:				
Property tax:				
Succeeding year	75,000	-	-	75,000
Accounts	-	1,017	-	1,017
Due from other governments	-	601	-	601
<b>Total assets</b>	<b>206,884</b>	<b>39,124</b>	<b>-</b>	<b>246,008</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	-	10,970	-	10,970
Deferred revenue:				
Succeeding year property tax	75,000	-	-	75,000
Total liabilities	75,000	10,970	-	85,970
Fund balances:				
Restricted for:				
Management levy	131,884	-	-	131,884
Student activities	-	28,154	-	28,154
Total fund balances	131,884	28,154	-	160,038
<b>Total liabilities and fund balances</b>	<b>206,884</b>	<b>39,124</b>	<b>-</b>	<b>246,008</b>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2012

	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Other	5,073	86,728	-	91,801
Expenditures:				
Current:				
Instruction:				
Regular	18,140	-	-	18,140
Other	-	105,003	-	105,003
Support services:				
Administration	27,565	-	-	27,565
Operation and maintenance of plant	19,683	-	-	19,683
Transportation	5,045	-	-	5,045
Other expenditures:				
Long-term debt:				
Principal	-	-	130,000	130,000
Interest and fiscal charges	-	-	5,245	5,245
Total expenditures	70,433	105,003	135,245	310,681
Excess (deficiency) of revenues over (under) expenditures	(65,360)	(18,275)	(135,245)	(218,880)
Other financing sources (uses):				
Operating transfers in	-	-	135,245	135,245
Net change in fund balances	(65,360)	(18,275)	-	(83,635)
Fund balances beginning of year	197,244	46,429	-	243,673
Fund balances end of year	131,884	28,154	-	160,038

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Capital Project Accounts

June 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>	\$	\$	\$
Cash and pooled investments	58,228	57,979	116,207
Receivables:			
Property tax:			
Delinquent	-	2,810	2,810
Succeeding year	-	64,708	64,708
Due from other governments	40,056	130,741	170,797
<b>Total assets</b>	<u>98,284</u>	<u>256,238</u>	<u>354,522</u>
<b>Liabilities &amp; Fund Balances</b>			
Liabilities:			
Accounts payable	-	1,313	1,313
Deferred revenue:			
Succeeding year property tax	-	64,708	64,708
Income surtax	-	130,741	130,741
Total liabilities	<u>-</u>	<u>196,762</u>	<u>196,762</u>
Fund balances:			
Restricted for:			
School infrastructure	98,284	-	98,284
Physical plant and equipment	-	59,476	59,476
Total fund balances	<u>98,284</u>	<u>59,476</u>	<u>157,760</u>
<b>Total liabilities and fund balances</b>	<u>98,284</u>	<u>256,238</u>	<u>354,522</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Capital Project Accounts

Year ended June 30, 2012

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	254,122	317,346	571,468
Other	159	52	211
Total revenues	<u>254,281</u>	<u>317,398</u>	<u>571,679</u>
Expenditures:			
Current:			
Support services:			
Instructional staff services	217,515	1,497	219,012
Administration services	-	11,790	11,790
Operation and maintenance of plant	28,090	43,919	72,009
Transportation services	44,454	-	44,454
Other expenditures:			
Facilities acquisition	146,401	100,151	246,552
Total expenditures	<u>436,460</u>	<u>157,357</u>	<u>593,817</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(182,179)</u>	<u>160,041</u>	<u>(22,138)</u>
Other financing sources (uses):			
Compensation for loss of fixed assets	-	10,493	10,493
Operating transfers out	-	(135,245)	(135,245)
Total other financing sources (uses)	<u>-</u>	<u>(124,752)</u>	<u>(124,752)</u>
Net change in fund balance	(182,179)	35,289	(146,890)
Fund balances beginning of year	<u>280,463</u>	<u>24,187</u>	<u>304,650</u>
Fund balance end of year	<u><u>98,284</u></u>	<u><u>59,476</u></u>	<u><u>157,760</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	24,638	40,886	51,981	13,543
Vocal	1,721	333	239	1,815
Instrumental	262	22	103	181
MS student council	-	3	-	3
Activity tickets	-	1,190	589	601
Interest	2,133	-	-	2,133
Drama and speech	208	533	741	-
FFA	(1,167)	8,206	7,206	(167)
FFA scholarship CD	1,000	-	-	1,000
FCCLA	2,126	11	1,810	327
Student council-high school	1,611	938	3,808	(1,259)
Annual	3,906	7,807	8,393	3,320
Spanish club	1,552	1,011	1,654	909
Economics club	203	-	-	203
Voc. team club	301	-	-	301
FCA club	199	-	-	199
Elementary student council	195	3,262	3,299	158
Elementary read-a-thon	20	-	-	20
Elementary spec. olympics	59	-	-	59
Business club	1,028	8,471	9,499	-
Quiz bowl	227	-	120	107
Science club	331	-	-	331
Class of 2012	4,848	1,632	6,480	-
Class of 2013	1,028	8,386	7,556	1,858
Class of 2014	-	3,723	1,478	2,245
Class of 2015	-	314	47	267
Total	46,429	86,728	105,003	28,154

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2012

	Music Boosters	PTO	Total
	\$	\$	\$
Balance beginning of year	7,187	10	7,197
Additions:			
Interest	9	-	9
Miscellaneous	6,592	-	6,592
Total additions	6,601	-	6,601
Deductions:			
Miscellaneous	7,711	-	7,711
Balance end of year	6,077	10	6,087

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:									
Local sources:									
Local tax	2,903,676	2,850,957	2,826,020	2,539,679	2,012,115	2,233,285	2,330,981	2,237,918	2,056,297
Tuition	468,992	225,101	335,644	337,664	392,687	224,855	170,375	268,802	245,588
Other	122,164	145,580	163,066	295,599	218,591	190,038	188,682	216,864	199,033
State sources	1,227,618	1,458,634	1,132,617	1,140,199	1,449,950	1,269,405	1,204,489	1,476,134	1,410,097
Federal sources	293,934	364,517	447,013	259,875	230,159	168,919	265,687	401,412	136,897
Total revenues	<u>5,016,384</u>	<u>5,044,789</u>	<u>4,904,360</u>	<u>4,573,016</u>	<u>4,303,502</u>	<u>4,086,502</u>	<u>4,160,214</u>	<u>4,601,130</u>	<u>4,047,912</u>
Expenditures:									
Instruction:									
Regular	1,820,296	1,602,825	1,577,994	1,571,886	1,596,282	1,489,036	1,485,648	1,610,145	1,317,154
Special	769,192	766,492	781,785	733,770	649,827	577,662	566,513	756,089	737,332
Other	608,662	644,447	686,474	598,422	573,293	521,452	510,544	272,263	363,522
Support services:									
Student	59,859	38,812	55,026	45,888	86,469	52,491	52,417	51,628	46,247
Instructional staff	225,957	90,149	46,629	19,242	93,601	148,105	30,542	70,063	74,736
Administration	466,881	443,651	450,807	443,625	448,430	427,917	484,188	496,008	455,391
Operation and maintenance	291,827	306,092	298,365	317,614	428,217	361,119	338,416	274,303	230,455
Transportation	243,926	241,963	226,453	223,313	256,072	321,250	279,018	239,727	288,779
Other expenditures:									
Facilities acquisition	246,552	320,971	322,485	258,300	129,607	93,844	114,819	552,480	1,972,927
Long-term debt:									
Principal	130,000	125,000	120,000	120,000	115,000	110,000	110,000	105,000	100,000
Interest and other charges	5,245	9,570	13,480	17,380	20,830	23,718	26,193	28,293	30,193
AEA flowthrough	131,538	152,354	150,507	136,215	137,836	132,514	128,082	130,763	132,787
Total expenditures	<u>4,999,935</u>	<u>4,742,326</u>	<u>4,730,005</u>	<u>4,485,655</u>	<u>4,535,464</u>	<u>4,259,108</u>	<u>4,126,380</u>	<u>4,586,762</u>	<u>5,749,523</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
North Kossuth Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Kossuth Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated June 26, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of North Kossuth Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered North Kossuth 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 Kossuth Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Kossuth Community School District's internal control over financial reporting.

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

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

### Compliance and Other Matters

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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of North Kossuth Community School District and other parties to whom North Kossuth Community School District may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of North Kossuth 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.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

June 26, 2013

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

12-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, payroll processing, preparing checks and bank reconciliations, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

12-I-B Check Signatures: We noted that checks are being signed for the board secretary and board president, by the District's accounting software. This practice negates the control procedure established by requiring two signatures on checks.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks.

District Response: We believe that using the accounting software to sign checks allows the office to operate more efficiently.

Conclusion: Response accepted.

12-I-C Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements (continued):

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

12-II-A Certified Budget: Expenditures for the year ended June 30, 2012 did not exceed the certified budget amounts.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Beth Rolling, Board President, spouse is director at local bank and Father is the owner of the same bank	School Banking	

Recommendation: When school board members have relationships with local banks, conflicts of interest may occur with school banking agreements and when the bank has a depositor or lender relationship with entities that also do business with the school. The board should consult with its attorney before entering into any transactions that may appear to be a conflict of interest.

District Response: We will consult with our attorney on all issues that might be a conflict of interest.

Conclusion: Response accepted.

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

12-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

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

12-II-H Supplementary Weighting: The supplementary weighting certified to the Department of Education for a shared transportation director was understated by 6.

Recommendation: The District needs to implement procedures to review the supplemental weighting claimed for shared employees.

District Response: We will review our procedures.

Conclusion: Response accepted.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (continued):

- 12-II-I Deposits and Investments: We noted 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.
- 12-II-J Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.
- 12-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- 12-II-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

	\$	\$
Beginning balance		280,463
Revenues/transfers in:		
Sales tax revenues	254,122	
Other local revenues	159	254,281
	<hr/>	
Expenditures/transfers out:		
School infrastructure construction	143,987	
Equipment	256,508	
Other	35,935	436,460
	<hr/>	
Ending balance		<hr/> <hr/> 98,284

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