

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Northwood-Kensett Community School District

Officials

Name	Title	Term Expires
Board of Education		
(Before September 2011 election)		
Larry Hovey	President	2011
John Anderson	Vice President	2011
Roger Harris	Board Member	2013
Cindy Pangburn	Board Member	2011
Susan Kliment	Board Member	2013
(After September 2011 election)		
Larry Hovey	President	2015
John Anderson	Vice President	2015
Roger Harris	Board Member	2013
Cindy Pangburn	Board Member	2015
Susan Kliment	Board Member	2013
School Officials		
Thomas Nugent	Superintendent	2012
Karen Abrahams	Business Manager/ Board Secretary/ Treasurer	2012
Ahlers & Cooney	Attorney	2012

Northwood-Kensett Community School District

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northwood-Kensett 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 Northwood-Kensett Community School District, Northwood, 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 Northwood-Kensett Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2013 on our consideration of Northwood-Kensett 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 7 through 15 and 44 through 46 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 operation, 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 or 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 Northwood-Kensett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,173,689 in fiscal year 2011 to \$5,384,423 in fiscal year 2012, while General Fund expenditures increased from \$5,212,519 in fiscal 2011 to \$5,276,376 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$1,093,242 in fiscal 2011 to \$1,201,289 in fiscal 2012, a 9.88% increase from prior year.
- The increase in General Fund revenues was largely attributable to an increase in property taxes. The increase in expenditures was due primarily to an increase in the instruction and support services functional areas compared to the prior year.
- The District is in its 15th year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.
- In FY 2012, 11 out-of-state students tuitioned into the District producing significant revenues.

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 Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Supplementary Information provides detailed information about the nonmajor funds.

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

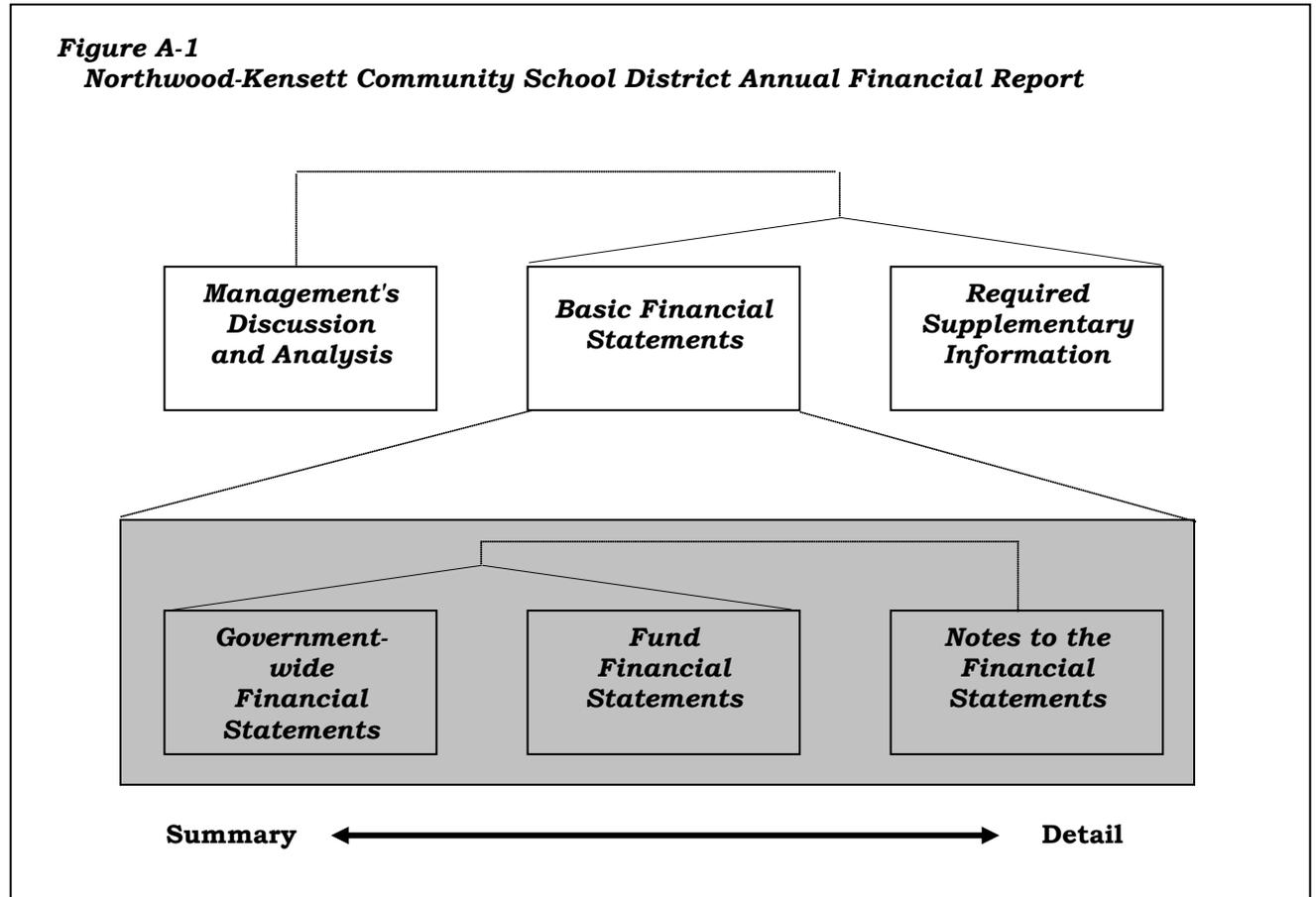


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total 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 District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011	2011-12	
Current and other assets	\$ 5,517,918	5,371,537	32,723	53,736	5,550,641	5,425,273	2.31%	
Capital assets	5,143,125	4,870,137	32,092	33,911	5,175,217	4,904,048	5.53%	
Total assets	10,661,043	10,241,674	64,815	87,647	10,725,858	10,329,321	3.84%	
Long-term obligations	1,745,855	2,250,135	2,629	1,703	1,748,484	2,251,838	-22.35%	
Other liabilities	2,890,470	2,727,238	2,971	3,512	2,893,441	2,730,750	5.96%	
Total liabilities	4,636,325	4,977,373	5,600	5,215	4,641,925	4,982,588	-6.84%	
Net assets:								
Invested in capital assets, net of related debt	3,502,596	2,839,534	32,092	33,911	3,534,688	2,873,445	23.01%	
Restricted	1,405,005	1,417,612	-	-	1,405,005	1,417,612	-0.89%	
Unrestricted	1,117,117	1,007,155	27,123	48,521	1,144,240	1,055,676	8.39%	
Total net assets	\$ 6,024,718	5,264,301	59,215	82,432	6,083,933	5,346,733	13.79%	

The District's combined net assets increased by 13.79%, or \$737,200 from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$12,607 or 0.89% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$88,564 or 8.39% from the prior year.

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

Figure A-4							
Changes in Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 347,157	428,637	148,550	143,447	495,707	572,084	-13.35%
Operating grants, contributions and restricted interest	680,200	696,847	118,037	120,856	798,237	817,703	-2.38%
Capital grants, contributions and restricted interest	491,982	327,001	-	-	491,982	327,001	50.45%
General revenues:							
Local tax	2,718,438	2,701,548	-	-	2,718,438	2,701,548	0.63%
Statewide sales, services and use tax	390,324	368,725	-	-	390,324	368,725	5.86%
Unrestricted state grants	2,085,106	2,023,469	-	-	2,085,106	2,023,469	3.05%
Nonspecific program federal grants	45,544	112,695	-	-	45,544	112,695	-59.59%
Other	76,047	67,533	1,386	2,281	77,433	69,814	10.91%
Total revenues	6,834,798	6,726,455	267,973	266,584	7,102,771	6,993,039	1.57%
Program expenses:							
Governmental activities:							
Instructional	3,924,667	4,015,571	-	-	3,924,667	4,015,571	-2.26%
Support services	1,698,753	1,541,252	-	-	1,698,753	1,541,252	10.22%
Non-instructional programs	-	-	291,190	268,123	291,190	268,123	8.60%
Other expenses	450,961	481,801	-	-	450,961	481,801	-6.40%
Total expenses	6,074,381	6,038,624	291,190	268,123	6,365,571	6,306,747	0.93%
Change in net assets	760,417	687,831	(23,217)	(1,539)	737,200	686,292	7.42%
Net assets beginning of year	5,264,301	4,576,470	82,432	83,971	5,346,733	4,660,441	14.73%
Net assets end of year	\$ 6,024,718	5,264,301	59,215	82,432	6,083,933	5,346,733	13.79%

In fiscal 2012, local tax, unrestricted state grants, and operating grants, contributions and restricted interest account for 80.23% of the revenue from governmental activities while charges for services and operating grants, contributions and restricted interest account for 99.48% of the revenue from business type activities.

The District's total revenues were approximately \$7.10 million of which approximately \$6.83 million was for governmental activities and approximately \$.27 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.57% increase in revenues and a 0.93% increase in expenses. The increase in expenditures was due primarily to an increase in the other expenses functional area expenditures compared to the prior year.

Governmental Activities

Revenues for governmental activities were \$6,834,798 and expenses were \$6,074,381.

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

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 3,924,667	4,015,571	-2.26%	3,105,469	2,805,160	10.71%
Support services	1,698,753	1,541,252	10.22%	1,205,471	1,527,357	-21.07%
Other expenses	450,961	481,801	-6.40%	244,102	253,622	-3.75%
Totals	<u>\$ 6,074,381</u>	<u>6,038,624</u>	<u>0.59%</u>	<u>4,555,042</u>	<u>4,586,139</u>	<u>-0.68%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$347,157.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$680,200.
- Gaming grants subsidized certain programs with capital grants totaling \$491,982.
- The net cost of governmental activities was financed with \$2,718,438 in local tax, \$390,324 in statewide sales, services and use tax, \$2,085,106 in unrestricted state grants, \$45,544 in nonspecific program federal grants and \$76,047 in other income.

Business Type Activities

Revenues of the District's business type activities were \$267,973 and expenses were \$291,190. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,507,221; down from last year's ending fund balances of \$2,516,933.

Governmental Fund Highlights

- The District's increased General Fund financial position is the result of many factors. The increase in revenues exceeded the increase in expenses leading to an increase in fund balance.
- The Capital Projects fund balance increase from \$560,835 in fiscal 2011 to \$627,492 in fiscal 2012. The majority of the increase was due to the Physical Plant and Equipment Levy receiving more contributions & donations, which offset the increase in capital outlay.

Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$82,432 at June 30, 2011 to \$59,215 at June 30, 2012, representing a decrease of \$23,217 or 28.17 percent.

BUDGETARY HIGHLIGHTS

The District's revenues were \$422,816 more than budgeted revenues, a variance of 6.32%. The most significant real money variance resulted from the District receiving more from local sources than originally anticipated.

Total expenditures were less than amounts budgeted. 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.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$5,175,217, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$384,766.

The original cost of the District's capital assets was \$10,323,194. Governmental funds account for \$10,186,113 with the remainder of \$137,081 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2011 compared to \$503,377 at June 30, 2012. The increase is attributable to the football and stadium project.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 36,425	36,425	-	-	36,425	36,425	0.00%
Construction in progress	503,377	-	-	-	503,377	-	100.00%
Buildings	4,055,715	4,156,166	-	-	4,055,715	4,156,166	-2.42%
Improvements other than buildings	107,346	112,011	-	-	107,346	112,011	-4.16%
Machinery and equipment	440,262	565,535	32,092	33,911	472,354	599,446	-21.20%
Total	\$ 5,143,125	4,870,137	32,092	33,911	5,175,217	4,904,048	5.53%

Long-Term Debt

At June 30, 2012, the District had \$1,748,484 in other long-term debt outstanding. This represents a decrease of 22.35% over last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$1,310,000 at June 30, 2012.

The District had total outstanding computer lease payable of \$330,529 at June 30, 2012.

The District had compensated absences of \$19,129 at June 30, 2012.

The District had a net other postemployment liability payable of \$88,826 at June 30, 2012; \$86,197 attributable to governmental activities and \$2,629 to business type activities.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-12
General obligation bonds	\$ 1,310,000	1,545,000	-15.21%
Leases payable	330,529	485,603	-31.93%
Early retirement	-	129,180	-100.00%
Compensated absences	19,129	34,522	-44.59%
Net OPEB liability	88,826	57,533	54.39%
Totals	<u>\$ 1,748,484</u>	<u>2,251,838</u>	<u>-22.35%</u>

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:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Open enrollment cost the District significant revenues in fiscal 2012 as 31 resident students were certified as open enrolled out to other Districts while only 13 non-residents students open enrolled in.

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 Deb Athey, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1st Avenue North, P.O. Box 289, Northwood, Iowa, 50459-0289.

Northwood-Kensett Community School District

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,648,558	28,356	2,676,914
Receivables:			
Property tax:			
Delinquent	29,414	-	29,414
Succeeding year	2,523,821	-	2,523,821
Income surtax	127,027	-	127,027
Accounts	3,160	-	3,160
Due from other governments	185,938	-	185,938
Inventories	-	4,367	4,367
Capital assets, net of accumulated depreciation	5,143,125	32,092	5,175,217
Total assets	10,661,043	64,815	10,725,858
Liabilities			
Accounts payable	359,849	650	360,499
Accrued interest payable	6,800	-	6,800
Deferred revenue:			
Succeeding year property tax	2,523,821	-	2,523,821
Unearned revenue	-	2,321	2,321
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	250,000	-	250,000
Computer lease payable	161,771	-	161,771
Compensated absences payable	19,129	-	19,129
Portion due after one year:			
General obligation bonds payable	1,060,000	-	1,060,000
Computer lease payable	168,758	-	168,758
Net OPEB liability	86,197	2,629	88,826
Total liabilities	4,636,325	5,600	4,641,925
Net Assets			
Invested in capital assets, net of related debt	3,502,596	32,092	3,534,688
Restricted for:			
Categorical funding	99,073	-	99,073
Management levy	493,103	-	493,103
School infrastructure	341,953	-	341,953
Physical plant and equipment	285,539	-	285,539
Student activities	95,889	-	95,889
Support trust	15,876	-	15,876
Debt service	73,572	-	73,572
Unrestricted	1,117,117	27,123	1,144,240
Total net assets	\$ 6,024,718	59,215	6,083,933

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 2,397,957	145,189	305,302	-	(1,947,466)	-	(1,947,466)
Special	841,542	31,165	70,621	-	(739,756)	-	(739,756)
Other	685,168	170,803	96,118	-	(418,247)	-	(418,247)
	<u>3,924,667</u>	<u>347,157</u>	<u>472,041</u>	<u>-</u>	<u>(3,105,469)</u>	<u>-</u>	<u>(3,105,469)</u>
Support services:							
Student	110,211	-	-	-	(110,211)	-	(110,211)
Instructional staff	270,107	-	1,300	-	(268,807)	-	(268,807)
Administration	576,062	-	-	-	(576,062)	-	(576,062)
Operation and maintenance of plant	494,086	-	-	491,982	(2,104)	-	(2,104)
Transportation	248,287	-	-	-	(248,287)	-	(248,287)
	<u>1,698,753</u>	<u>-</u>	<u>1,300</u>	<u>491,982</u>	<u>(1,205,471)</u>	<u>-</u>	<u>(1,205,471)</u>
Long-term debt interest	67,353	-	-	-	(67,353)	-	(67,353)
Other expenditures:							
AEA flowthrough	206,859	-	206,859	-	-	-	-
Depreciation(unallocated)*	176,749	-	-	-	(176,749)	-	(176,749)
	<u>383,608</u>	<u>-</u>	<u>206,859</u>	<u>-</u>	<u>(176,749)</u>	<u>-</u>	<u>(176,749)</u>
Total governmental activities	6,074,381	347,157	680,200	491,982	(4,555,042)	-	(4,555,042)
Business Type activities:							
Non-instructional programs:							
Nutrition services	291,190	148,550	118,037	-	-	(24,603)	(24,603)
Total business type activities	<u>291,190</u>	<u>148,550</u>	<u>118,037</u>	<u>-</u>	<u>-</u>	<u>(24,603)</u>	<u>(24,603)</u>
Total	<u>\$ 6,365,571</u>	<u>495,707</u>	<u>798,237</u>	<u>491,982</u>	<u>(4,555,042)</u>	<u>(24,603)</u>	<u>(4,579,645)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 2,218,464	-	2,218,464
Capital outlay					236,371	-	236,371
Debt service					134,173	-	134,173
Income surtax					129,430	-	129,430
Statewide sales, services and use tax					390,324	-	390,324
Unrestricted state grants					2,085,106	-	2,085,106
Nonspecific program federal grants					45,544	-	45,544
Unrestricted investment earnings					17,610	235	17,845
Other					58,437	1,151	59,588
Total general revenues					<u>5,315,459</u>	<u>1,386</u>	<u>5,316,845</u>
Changes in net assets					760,417	(23,217)	737,200
Net assets beginning of year					<u>5,264,301</u>	<u>82,432</u>	<u>5,346,733</u>
Net assets end of year					<u>\$ 6,024,718</u>	<u>59,215</u>	<u>6,083,933</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,246,208	725,578	676,772	2,648,558
Receivables:				
Property tax				
Delinquent	25,205	2,501	1,708	29,414
Succeeding year	2,129,077	259,600	135,144	2,523,821
Income surtax	127,027	-	-	127,027
Accounts	3,160	-	-	3,160
Due from other governments	51,388	134,550	-	185,938
Total assets	\$ 3,582,065	1,122,229	813,624	5,517,918
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 124,672	235,137	40	359,849
Deferred revenue:				
Succeeding year property tax	2,129,077	259,600	135,144	2,523,821
Income surtax	127,027	-	-	127,027
Total liabilities	2,380,776	494,737	135,184	3,010,697
Fund balances:				
Restricted for:				
Categorical funding	99,073	-	-	99,073
Management levy purposes	-	-	493,103	493,103
School infrastructure	-	341,953	-	341,953
Physical plant and equipment	-	285,539	-	285,539
Student activities	-	-	95,889	95,889
Support trust	-	-	15,876	15,876
Debt service	-	-	73,572	73,572
Unassigned:				
General	1,102,216	-	-	1,102,216
Total fund balances	1,201,289	627,492	678,440	2,507,221
Total liabilities and fund balances	\$ 3,582,065	1,122,229	813,624	5,517,918

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,330,827	626,695	159,193	3,116,715
Tuition	173,014	-	-	173,014
Other	314,180	495,042	177,192	986,414
State sources	2,344,379	123	83	2,344,585
Federal sources	222,023	-	-	222,023
Total revenues	<u>5,384,423</u>	<u>1,121,860</u>	<u>336,468</u>	<u>6,842,751</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,284,994	56,896	168,583	2,510,473
Special	841,542	-	-	841,542
Other	522,621	-	162,547	685,168
	<u>3,649,157</u>	<u>56,896</u>	<u>331,130</u>	<u>4,037,183</u>
Support services:				
Student	109,798	-	-	109,798
Instructional staff	175,857	-	-	175,857
Administration	565,535	-	12,161	577,696
Operation and maintenance of plant	341,645	-	30,040	371,685
Transportation	227,525	-	13,359	240,884
	<u>1,420,360</u>	<u>-</u>	<u>55,560</u>	<u>1,475,920</u>
Capital outlay	-	674,260	-	674,260
Long-term debt:				
Principal	-	-	390,074	390,074
Interest	-	-	68,167	68,167
	<u>-</u>	<u>-</u>	<u>458,241</u>	<u>458,241</u>
Other expenditures:				
AEA flowthrough	206,859	-	-	206,859
Total expenditures	<u>5,276,376</u>	<u>731,156</u>	<u>844,931</u>	<u>6,852,463</u>
Excess(Deficiency) of revenues over(under) expenditures	108,047	390,704	(508,463)	(9,712)
Other financing sources(uses):				
Transfers in	-	-	324,047	324,047
Transfers out	-	(324,047)	-	(324,047)
Total other financing sources(uses)	<u>-</u>	<u>(324,047)</u>	<u>324,047</u>	<u>-</u>
Net change in fund balances	108,047	66,657	(184,416)	(9,712)
Fund balances beginning of year	<u>1,093,242</u>	<u>560,835</u>	<u>862,856</u>	<u>2,516,933</u>
Fund balances end of year	<u>\$ 1,201,289</u>	<u>627,492</u>	<u>678,440</u>	<u>2,507,221</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds(page 22) \$ (9,712)

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

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

Capital outlays	\$ 618,649	
Depreciation expense	(345,661)	272,988

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (7,953)

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

Early retirement	129,180	
Compensated absences	15,393	
Other postemployment benefits	(30,367)	114,206

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 390,074

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. 814

Changes in net assets of governmental activities(page 19) \$ 760,417

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

		School Nutrition
Assets		
Cash and pooled investments	\$	28,356
Inventories		4,367
Capital assets, net of accumulated depreciation		32,092
Total assets		64,815
 Liabilities		
Accounts payable		650
Unearned revenues		2,321
Net OPEB liability		2,629
Total liabilities		5,600
 Net Assets		
Invested in capital assets		32,092
Unrestricted		27,123
Total net assets	\$	59,215

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 148,550
Miscellaneous	1,151
Total operating revenues	149,701
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	86,899
Benefits	30,072
Services	20,252
Supplies	145,211
Depreciation	5,381
Other	3,375
Total operating expenses	291,190
Operating loss	(141,489)
Non-operating revenues:	
State sources	2,768
Federal sources	115,269
Interest income	235
Total non-operating revenues	118,272
Decrease in net assets	(23,217)
Net assets beginning of year	82,432
Net assets end of year	\$ 59,215

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 148,012
Cash received from miscellaneous operating activities	1,151
Cash payments to employees for services	(116,045)
Cash payments to suppliers for goods or services	(154,568)
Net cash used in operating activities	(121,450)
Cash flows from non-capital financing activities:	
State grants received	2,768
Federal grants received	100,042
Net cash provided by non-capital financing activities	102,810
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(3,562)
Cash flows from investing activities:	
Interest on investment	235
Net decrease in cash and cash equivalents	(21,967)
Cash and cash equivalents at beginning of year	50,323
Cash and cash equivalents at end of year	\$ 28,356
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (141,489)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	15,227
Depreciation	5,381
Increase in inventories	(954)
Decrease in accounts payable	(3)
Decrease in unearned revenue	(538)
Increase in net OPEB liability	926
Net cash used in operating activities	\$ (121,450)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2012, the District received \$15,227 of federal commodities.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Assets	
Cash and pooled investments	\$ 464,037
Net Assets	
Restricted for scholarships	485,781
Unrestricted	(21,744)
Total net assets	\$ 464,037

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest	\$ 13,588
Contributions	18,328
Total additions	<u>31,916</u>
Deductions:	
Instruction:	
Regular	
Scholarships	<u>36,159</u>
Change in net assets	(4,243)
Net assets beginning of year	<u>468,280</u>
Net assets end of year	<u>\$ 464,037</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

(1) Summary of Significant Accounting Policies

The Northwood-Kensett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth 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, Northwood-Kensett 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 Northwood-Kensett Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District's proprietary fund is the School Nutrition Fund.

The Nutrition Fund is used to account for the food service operations of the District.

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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been

recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

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

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

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Land improvements	2,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

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

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

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

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

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

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

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust which are value at an amortized cost of \$116 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's financial Services.

At June 30, 2012, the District had investments in VSR Financial valued at \$244,275 pursuant to Rule 2a-7 under the Investment Act of 1940.

(3) Transfers

The detail of transfers for the year ended June 30, 2012 is as follows: **Error! Not a valid link.**

The transfers from Capital Projects: Statewide Sales, Service and Use Tax fund to the Debt Service fund was needed for the payment of the general obligation bond and one half of the computer lease indebtedness.

The transfer from Capital Projects: Physical Plant and Equipment Levy fund to the Debt Service fund was needed for the payment for one half of the computer lease indebtedness.

Transfers generally move in 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 is as follows:**Error! Not a valid link.Error! Not a valid link.**

(5) Long Term Liabilities

Error! Not a valid link.General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 5, 2009				
	Interest Rates		Principal	Interest	Total
2013	3.00	% \$	250,000	39,644	289,644
2014	3.00		255,000	32,143	287,143
2015	3.00		260,000	24,494	284,494
2016	3.00		270,000	16,694	286,694
2017	3.13		275,000	8,594	283,594
Total			\$ 1,310,000	121,569	1,431,569

Computer Leases Payable

Details of the District's June 30, 2012 computer lease indebtedness are as follows:

Year Ending June 30,	Computer lease dated July 1, 2010				
	Interest Rates		Principal	Interest	Total
2013	4.32	% \$	161,771	14,275	176,046
2014	4.32		168,758	7,288	176,046
Total			\$ 330,529	21,563	352,092

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must reach the age of fifty-five on or before June 30 of the year the certified employee wishes to retire and must have completed fifteen years of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the year ended June 30, 2012, totaled \$129,180. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$253,967, \$217,598, and \$204,283 respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits

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

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

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

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

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

Annual required contribution	\$ 35,589
Interest on net OPEB obligation	1,438
Adjustment to annual required contribution	<u>(3,459)</u>
Annual OPEB cost	33,568
Contributions made	<u>2,275</u>
Increases in net OPEB obligation	31,293
Net OPEB obligation beginning of year	<u>57,533</u>
Net OPEB obligation end of year	<u><u>\$ 88,826</u></u>

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

For the year ended June 30, 2012, the District contributed \$2,275 to the medical plan.

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:

Year Ended June 30,	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 30,290	5.20%	\$ 28,726
2011	30,705	6.18%	57,533
2012	33,568	6.78%	88,826

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 \$256,453, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$256,453. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,956,028 and the ratio of the UAAL to covered payroll was 8.68%. As of June 30, 2012, there were no trust fund assets.

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

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

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

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

Projected claim costs of the medical plan are \$500 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) Risk Management

The District is 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 \$206,859 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) Categorical Funding

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

Program	Amount
Returning dropouts and dropout prevention programs	\$ 5,863
Beginning teacher mentoring and induction program	111
Market factor	3,807
Professional development for model core curriculum	23,972
Professional development	39,605
Educator quality, basic salary	23,950
Market factor incentives	1,765
	\$ 99,073
Total restricted for categorical funding	

(11) Budget Overexpenditure

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

(12) Financial Condition

At June 30, 2012, noted two accounts in the Special Revenue: Student Activity Fund with a combined deficit balance of \$2,942.

Northwood-Kensett Community School District

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON 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	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 4,276,143	149,936	4,426,079	4,026,590	4,026,590	399,489
State sources	2,344,585	2,768	2,347,353	2,347,318	2,347,318	35
Federal sources	222,023	115,269	337,292	314,000	314,000	23,292
Total revenues	6,842,751	267,973	7,110,724	6,687,908	6,687,908	422,816
Expenditures/Expenses:						
Instruction	4,037,183	-	4,037,183	4,392,200	4,392,200	355,017
Support services	1,475,920	-	1,475,920	1,690,250	1,690,250	214,330
Non-instructional programs	-	291,190	291,190	310,500	310,500	19,310
Other expenditures	1,339,360	-	1,339,360	861,341	861,341	(478,019)
Total expenditures/expenses	6,852,463	291,190	7,143,653	7,254,291	7,254,291	110,638
Excess(Deficiency) of revenues over(under) expenditures/expenses	(9,712)	(23,217)	(32,929)	(566,383)	(566,383)	533,454
Balances beginning of year	2,516,933	82,432	2,599,365	2,147,540	2,147,540	451,825
Balances end of year	\$ 2,507,221	59,215	2,566,436	1,581,157	1,581,157	985,279

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the amounts budgeted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	0	\$ 277,457	277,457	0.00%	\$ 2,424,048	11.45%
2011	July 1, 2009	0	270,976	270,976	0.00%	2,962,164	9.15%
2012	July 1, 2009	0	256,453	256,453	0.00%	2,956,028	8.68%

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

SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue					Total
	Management Levy	Student Activity	Support Trust	Total Special Revenue Funds		Debt Service
				Revenue	Funds	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 492,855	95,889	15,876	604,620	72,152	676,772
Receivables:						
Property tax:						
Delinquent	288	-	-	288	1,420	1,708
Succeeding year	25,000	-	-	25,000	110,144	135,144
Total assets	\$ 518,143	95,889	15,876	629,908	183,716	813,624
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 40	-	-	40	-	40
Deferred revenue:						
Succeeding year property tax	25,000	-	-	25,000	110,144	135,144
	25,040	-	-	25,040	110,144	135,184
Fund balances:						
Restricted for:						
Student activities	-	95,889	-	95,889	-	95,889
Support trust	-	-	15,876	15,876	-	15,876
Management	493,103	-	-	493,103	-	493,103
Debt service	-	-	-	-	73,572	73,572
Total fund balances	493,103	95,889	15,876	604,868	73,572	678,440
Total liabilities and fund balances	\$ 518,143	95,889	15,876	629,908	183,716	813,624

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					Total
	Management Levy	Student Activity	Support Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Revenues:						
Local sources:						
Local tax	\$ 25,020	-	-	25,020	134,173	159,193
Other	10,535	165,714	152	176,401	791	177,192
State sources	13	-	-	13	70	83
Total revenues	<u>35,568</u>	<u>165,714</u>	<u>152</u>	<u>201,434</u>	<u>135,034</u>	<u>336,468</u>
Expenditures:						
Current:						
Instruction:						
Regular	167,929	-	654	168,583	-	168,583
Other	-	162,547	-	162,547	-	162,547
Support services:						
Administration	12,161	-	-	12,161	-	12,161
Operation and maintenance of plant	30,040	-	-	30,040	-	30,040
Transportation	13,359	-	-	13,359	-	13,359
Other expenditures:						
Long-term debt:						
Principal	-	-	-	-	390,074	390,074
Interest	-	-	-	-	68,167	68,167
Total expenditures	<u>223,489</u>	<u>162,547</u>	<u>654</u>	<u>386,690</u>	<u>458,241</u>	<u>844,931</u>
Excess(Deficiency) of revenues over expenditures	(187,921)	3,167	(502)	(185,256)	(323,207)	(508,463)
Other financing sources:						
Transfer in	-	-	-	-	324,047	324,047
Net changes in fund balance	(187,921)	3,167	(502)	(185,256)	840	(184,416)
Fund balances beginning of year	<u>681,024</u>	<u>92,722</u>	<u>16,378</u>	<u>790,124</u>	<u>72,732</u>	<u>862,856</u>
Fund balances end of year	<u>\$ 493,103</u>	<u>95,889</u>	<u>15,876</u>	<u>604,868</u>	<u>73,572</u>	<u>678,440</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT 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
Assets			
Cash and pooled investments	\$ 207,403	518,175	725,578
Receivables:			
Property tax:			
Delinquent	-	2,501	2,501
Succeeding year	-	259,600	259,600
Accounts	134,550	-	134,550
Total assets	\$ 341,953	780,276	1,122,229
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	235,137	235,137
Deferred revenue:			
Succeeding year property tax	-	259,600	259,600
	-	494,737	494,737
Fund balances:			
Restricted for:			
School infrastructure	341,953	-	341,953
Physical plant and equipment	-	285,539	285,539
Total fund balances	341,953	285,539	627,492
Total liabilities and fund balances	\$ 341,953	780,276	1,122,229

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 390,324	236,371	626,695
Other	841	494,201	495,042
State sources	-	123	123
Total revenues	<u>391,165</u>	<u>730,695</u>	<u>1,121,860</u>
Expenditures:			
Current:			
Instruction:			
Regular	56,896	-	56,896
Other expenditures:			
Capital outlay	9,226	665,034	674,260
Total expenditures	<u>66,122</u>	<u>665,034</u>	<u>731,156</u>
Excess of revenues over expenditures	325,043	65,661	390,704
Other financing uses:			
Transfers out	<u>(236,024)</u>	<u>(88,023)</u>	<u>(324,047)</u>
Net changes in fund balance	89,019	(22,362)	66,657
Fund balances beginning of year	<u>252,934</u>	<u>307,901</u>	<u>560,835</u>
Fund balances end of year	<u>\$ 341,953</u>	<u>285,539</u>	<u>627,492</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund Transfers	Balance End of Year
Drama	\$ 1,069	1,680	1,514	(750)	485
Speech	-	-	750	750	-
Vocal music	4,375	2,047	1,442	370	5,350
Choir robe	2,411	111	-	-	2,522
High school band	1,229	3,185	1,742	(370)	2,302
Elementary band	72	335	191	-	216
High school band uniforms	541	9,933	16,857	33,965	27,582
High school horn rent/repair	533	570	328	-	775
Instrument repair	1,184	3,000	976	-	3,208
Elementary horn repair	-	45	-	-	45
Band trip	5,014	356	-	-	5,370
General athletics	-	921	1,572	651	-
Athletic passes	-	17,378	13,217	(4,161)	-
Athletic uniforms	-	11,000	7,730	(3,270)	-
Camps	(109)	10,144	10,031	(4)	-
Boys Basketball	-	3,791	4,032	241	-
Football	-	8,822	10,086	1,264	-
Baseball	-	138	2,172	603	(1,431)
Boys track	-	1,667	3,223	1,556	-
Boys golf	-	-	759	759	-
Wrestling	-	1,818	2,033	215	-
Junior high wrestling	-	-	251	251	-
Trap	-	-	1,600	1,600	-
Girls basketball	-	4,261	3,002	(1,259)	-
Volleyball	-	2,288	2,360	72	-
Softball	-	411	2,525	603	(1,511)
Girls track	-	443	1,588	1,145	-
Girls golf	-	10	749	739	-
FFA	18,288	46,166	39,445	(678)	24,331
Math Club	510	620	1,101	-	29
Honor society	1,834	835	1,115	(250)	1,304
High school student council	1,221	366	1,151	250	686
Student leadership	-	-	-	-	-
FBLA	79	4,093	3,022	249	1,399
Cheerleaders	2,143	6,480	6,041	-	2,582
Spanish club	2,852	1,487	-	(249)	4,090
FCCLA club	3,174	5,382	4,648	-	3,908

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2011	873	-	838	(35)
Class of 2012	1,012	1,656	2,615	(53)
Class of 2013	2,881	1,395	2,144	47
Class of 2014	1,899	1,035	32	-
Class of 2015	515	845	24	-
Class of 2016	425	507	213	-
Class of 2017	-	412	183	-
Stevens Tech Lab	526	-	-	-
CHIP	398	1,912	2,033	-
Science projects	-	-	-	-
HS student of the month	-	1,491	744	-
Athletic misc.	-	(129)	(372)	(243)
Yearbook	2,935	6,348	6,840	11
Interest on checking	-	250	-	(250)
Interest on CD's	-	209	-	(209)
Elementary activities	460	-	-	-
Band CD	34,378	-	-	(33,560)
Total	\$ 92,722	165,714	162,547	-

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2012

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Hollstad	Richard Moen	Margaret Sigmond	Total
Assets						
Cash and pooled investments	\$ 49,125	86,403	195,150	31,920	101,439	464,037
Net Assets						
Restricted for scholarships	49,125	104,147	195,150	35,920	101,439	485,781
Unrestricted	-	(17,744)	-	(4,000)	-	(21,744)
Total net assets	\$ 49,125	86,403	195,150	31,920	101,439	464,037

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2012

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Holstad	Richard Moen	Margaret Sigmond	Total
Additions:						
Local sources:						
Interest	\$ 2,924	550	9,587	-	527	13,588
Contributions	-	18,328	-	-	-	18,328
Total additions	2,924	18,878	9,587	-	527	31,916
Deductions:						
Instruction:						
Regular						
Scholarships	11,427	4,000	13,092	4,000	3,640	36,159
Change in net assets	(8,503)	14,878	(3,505)	(4,000)	(3,113)	(4,243)
Net assets beginning of year	57,628	71,525	198,655	35,920	104,552	468,280
Net assets end of year	\$ 49,125	86,403	195,150	31,920	101,439	464,037

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 3,116,715	3,062,190	2,972,294	3,131,384	2,824,046	2,637,136	2,473,383	2,376,421	2,154,280
Tuition	173,014	203,029	150,764	124,768	107,205	102,073	72,369	81,471	64,500
Other	986,414	833,342	664,851	631,206	472,856	309,594	275,466	242,923	226,566
Intermediate sources	-	35,355	-	-	-	-	-	13,093	-
State sources	2,344,585	2,284,853	1,884,861	2,258,461	2,449,968	2,307,226	2,311,952	2,150,064	1,887,359
Federal sources	222,023	299,603	508,405	162,788	137,119	149,978	149,419	190,625	200,208
Total	<u>\$ 6,842,751</u>	<u>6,718,372</u>	<u>6,181,175</u>	<u>6,308,607</u>	<u>5,991,194</u>	<u>5,506,007</u>	<u>5,282,589</u>	<u>5,054,597</u>	<u>4,532,913</u>
Expenditures:									
Instruction:									
Regular	\$ 2,510,473	2,447,279	2,418,053	2,247,875	2,056,668	1,958,278	1,824,877	1,744,473	1,882,702
Special	841,542	750,244	716,357	753,003	738,386	743,155	669,142	719,381	642,003
Other	685,168	673,350	586,096	573,905	564,915	560,747	511,898	473,065	409,380
Support services:									
Student	109,798	103,912	99,287	92,398	90,615	64,307	74,091	133,658	128,773
Instructional staff	175,857	162,989	851,584	179,334	179,418	103,279	96,818	100,568	123,543
Administration	577,696	561,376	541,711	568,510	524,524	538,601	513,783	450,089	427,141
Operation and maintenance of plant	371,685	390,718	417,522	346,522	387,131	391,114	366,725	335,670	323,659
Transportation	240,884	211,265	243,270	197,434	228,921	213,196	197,981	143,065	137,278
Capital outlay	674,260	481,270	576,428	252,567	438,706	73,987	119,990	192,102	361,474
Long-term debt:									
Principal	390,074	378,654	237,389	211,917	201,463	274,895	204,290	225,078	219,167
Interest	68,167	81,436	61,737	113,782	118,566	129,451	138,463	149,020	157,512
Other expenditures:									
AEA flowthrough	206,859	228,179	215,037	181,370	178,412	170,051	164,998	155,958	151,485
Total	<u>\$ 6,852,463</u>	<u>6,470,672</u>	<u>6,964,471</u>	<u>5,718,617</u>	<u>5,707,725</u>	<u>5,221,061</u>	<u>4,883,056</u>	<u>4,822,127</u>	<u>4,964,117</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

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

To the Board of Education of the
Northwood-Kensett 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 Northwood-Kensett Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 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 Northwood-Kensett Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Northwood-Kensett Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies 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 deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-12 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwood-Kensett 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

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an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

Northwood-Kensett Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northwood-Kensett 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 Northwood-Kensett Community School District and other parties to whom Northwood-Kensett Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2013

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person. In addition we noted payroll contracts are entered into the system by one person and they are not reviewed by another person, better internal controls are achieved if a second person verifies the contracts entered into the software system.

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

Response - The District is aware of the lack of segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - Expenditures for the year ended June 30, 2012 exceeded the certified budget amounts in the other expenditures function.

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

Response - We will amend the budget as necessary in the future.

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Robin Fredericks, Bus driver & Aide Spouse owns A&I Auto	Repairs	\$10,283
Brian Campbell, Teacher Co-owns Soup's Pizzeria & Grill	Food	\$240
Larry Hovey, Board Member Co-Owns Hovey's Lawn & Garden	Lawn care, per bid	\$4,225
Roger Harris, Board Member Sister owns Cornerpost	Food	\$305

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Robin Fredericks and the sister of Roger Harris do not appear to represent a conflict of interest.

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

In accordance with Chapter 279.7A of the code of Iowa, the above transaction with the board member does not appear to represent a conflict of interest.

- II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-12 Certified Enrollment - No variances regarding the enrollment certified to the Iowa Department of Education were noted.
- II-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-12 Deposits and Investments - The District's investment policy does appear to comply with Chapter 12B and Chapter 12C of the Code of Iowa, however, we noted during our audit that the District owned mutual funds through VSR Financial. These are instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa, as well as the District's investment policy.

Recommendation - The District should sell the mutual funds and invest in an investment within compliance of the District policy code number 704.3, Chapter 12B and Chapter 12C of the Code of Iowa.

Response - We do not wish to sell the mutual fund investments at this time due to the loss on investment that would occur.

Conclusion - Response acknowledged. The District's investments in the mutual funds appear to be in violation of Code of Iowa Chapters 12B and 12C

II-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-12 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance noted 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 following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit.

Beginning Balance		\$	252,934
Revenues/transfers in:			
Sales tax revenues	\$	390,324	
Other local revenues		841	391,165
			<u>644,099</u>
Expenditures/transfers out:			
School infrastructure construction	\$	9,226	
Other		56,896	
Transfers to other funds:			
Debt service fund		236,024	302,146
			<u>302,146</u>
Ending Balance		\$	<u>341,953</u>

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

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service levy	\$ 0.99912	\$ 236,024

II-M-12 Activity Fund - We noted Advanced Placement testing revenues and expenses in the Activity Fund. These are instructional in nature and should be run through the General Fund.

Recommendation - The District should evaluate the appropriateness of these revenues and expenses and consider moving them.

Response - We have created General Fund accounts for Advanced Placement activity and will account for all testing revenues and expenses in the General Fund

Conclusion - Response accepted.

II-N-12 Financial Condition - At June 30, 2012, the District had two accounts within the Student Activity Fund that had deficit unassigned balances totaling \$2,942.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods and services from these accounts. The District should investigate alternatives to eliminate the deficit balances.

Response - We will evaluate account balances and make appropriate adjustments to keep balances positive.

Conclusion - Response accepted.