

ESSEX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Essex Community School District

Officials

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

ESSEX COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

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 40 through 42 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph in this report for the year ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2014 on our consideration of Essex Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 in considering Essex Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

March 18, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Essex Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,716,813 in fiscal year 2012 to \$2,640,171 in fiscal year 2013, while General Fund expenditures increased from \$2,686,079 in fiscal 2012 to \$2,788,086 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from \$524,004 in fiscal 2012 to \$376,089 in fiscal 2013, a 28.23% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local and state source revenues in fiscal 2013. The increase in expenditures was due to increases in negotiated salaries and benefits.
- Overall, the District's net position in the governmental activities decreased by \$26,177 and increased in the business type activities by \$2,233.

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 Position and a Statement of Activities. These provide information about the activities of Essex Community School District as a whole and present an overall view of the District's finances.

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

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

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

Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Essex Community School District Annual Financial Report

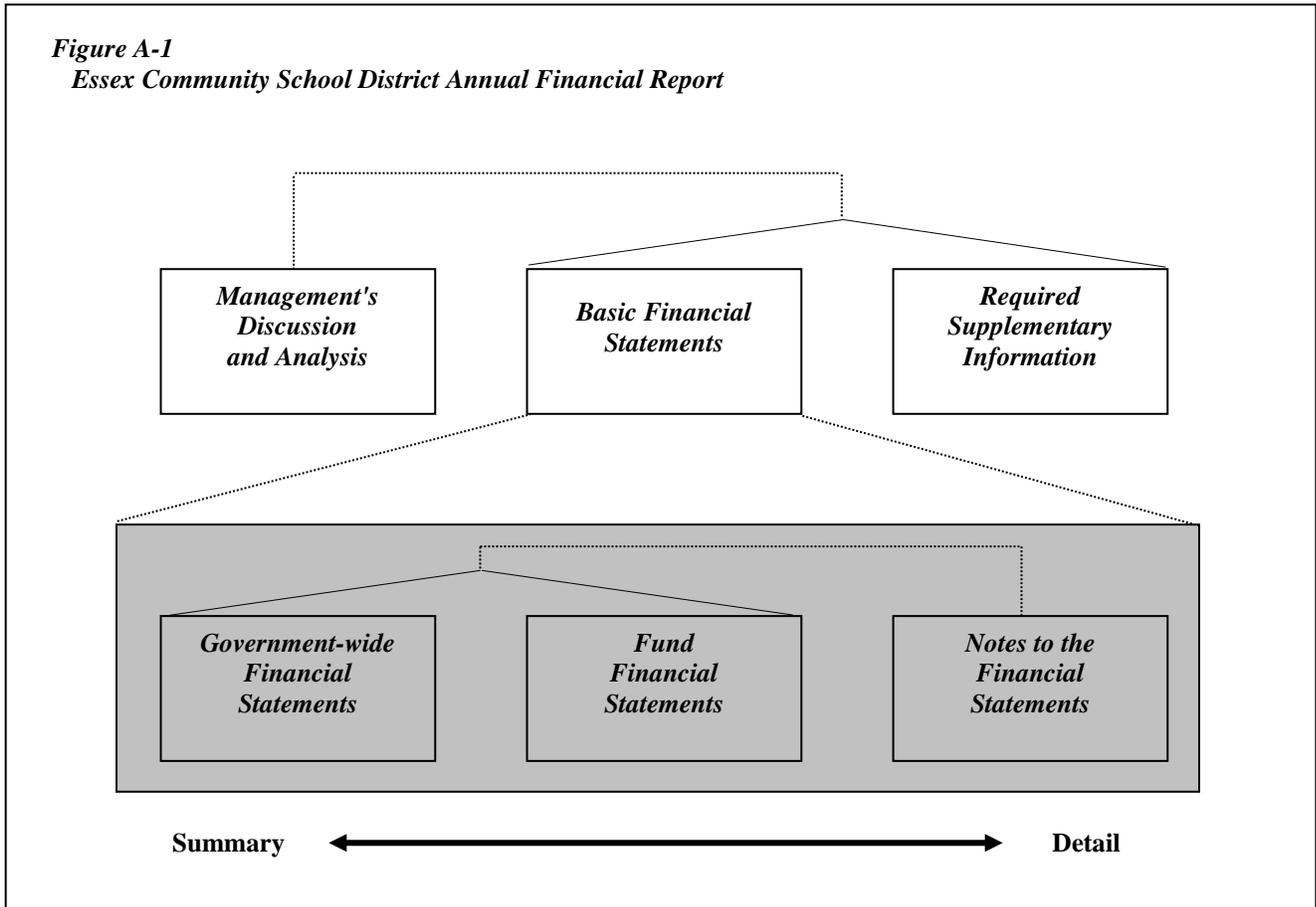


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • 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 position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position 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 position and how they have changed. Net position - 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 position is 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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds are used to account for the District's benevolence funds.

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 Position and a Statement of Changes in Fiduciary Net Position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2013 compared to June 30, 2012.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 2,294,211	2,164,445	4,880	4,321	2,299,091	2,168,766	6.01%
Capital assets	1,953,803	1,958,746	29,133	15,313	1,982,936	1,974,059	0.45%
Total assets	<u>4,248,014</u>	<u>4,123,191</u>	<u>34,013</u>	<u>19,634</u>	<u>4,282,027</u>	<u>4,142,825</u>	<u>3.36%</u>
Long-term obligations	648,790	608,263	-	-	648,790	608,263	6.66%
Other liabilities	1,372,831	1,262,358	13,419	1,273	1,386,250	1,263,631	9.70%
Total liabilities	<u>2,021,621</u>	<u>1,870,621</u>	<u>13,419</u>	<u>1,273</u>	<u>2,035,040</u>	<u>1,871,894</u>	<u>8.72%</u>
Net position:							
Invested in capital assets, net of related debt	1,547,507	1,610,246	29,133	15,313	1,576,640	1,625,559	-3.01%
Restricted	349,840	225,083	-	-	349,840	225,083	55.43%
Unrestricted	329,046	417,241	(8,539)	3,048	320,507	420,289	-23.74%
Total net position	<u>\$ 2,226,393</u>	<u>2,252,570</u>	<u>20,594</u>	<u>18,361</u>	<u>2,246,987</u>	<u>2,270,931</u>	<u>-1.05%</u>

The District's combined net position decreased by 1.05%, or \$23,944 from the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased 55.43%, or \$124,757 compared to the prior year. The increase in restricted net position is primarily the result of the increase in the Capital Project accounts fund balance.

Unrestricted net position - the part of net position that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased 23.74% or \$99,782 from the prior year. The decrease in unrestricted net position is primarily the result of the decrease in the General Fund unassigned balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to June 30, 2012.

	Figure A-4						
	Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 472,280	478,238	49,717	54,827	521,997	533,065	-2.08%
Operating grants, contributions and restricted interest	186,529	175,817	41,896	45,455	228,425	221,272	3.23%
Capital grants, contributions and restricted interest	11,824	24,615	-	12,675	11,824	37,290	-68.29%
General revenues:							
Property tax	944,060	1,020,956	-	-	944,060	1,020,956	-7.53%
Income surtax	125,320	99,179	-	-	125,320	99,179	26.36%
Statewide sales, services and use tax	204,621	179,532	-	-	204,621	179,532	13.97%
Unrestricted state grants	1,174,122	1,166,242	-	-	1,174,122	1,166,242	0.68%
Nonspecific program federal grants	-	708	-	-	-	708	-100.00%
Unrestricted investment earnings	1,486	995	1	2	1,487	997	49.15%
Other general revenues	17,038	18,428	788	1,649	17,826	20,077	-11.21%
Transfers	(16,839)	(9,743)	16,839	9,743	-	-	0.00%
Total revenues and transfers	<u>3,120,441</u>	<u>3,154,967</u>	<u>109,241</u>	<u>124,351</u>	<u>3,229,682</u>	<u>3,279,318</u>	<u>-1.51%</u>
Program expenses:							
Instructional	2,041,295	1,993,364	-	-	2,041,295	1,993,364	2.40%
Support services	938,909	913,116	329	-	939,238	913,116	2.86%
Non-instructional programs	-	-	106,679	116,120	106,679	116,120	-8.13%
Other expenses	166,414	193,647	-	-	166,414	193,647	-14.06%
Total expenses	<u>3,146,618</u>	<u>3,100,127</u>	<u>107,008</u>	<u>116,120</u>	<u>3,253,626</u>	<u>3,216,247</u>	<u>1.16%</u>
Change in net position	(26,177)	54,840	2,233	8,231	(23,944)	63,071	137.96%
Net position beginning of year	<u>2,252,570</u>	<u>2,197,730</u>	<u>18,361</u>	<u>10,130</u>	<u>2,270,931</u>	<u>2,207,860</u>	<u>2.86%</u>
Net position end of year	<u>\$ 2,226,393</u>	<u>2,252,570</u>	<u>20,594</u>	<u>18,361</u>	<u>2,246,987</u>	<u>2,270,931</u>	<u>-1.05%</u>

Property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 78.45% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest accounted for 83.86% of business type activities revenue.

The District's total revenues were \$3,229,682, of which \$3,120,441 was for governmental activities and \$109,241 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 1.51% decrease in revenues and a 1.16% increase in expenses. The decreases in revenues is related to the decrease in capital grants, contributions and restricted interest. The increase in expenses is related to increases in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$3,120,441 and expenses were \$3,146,618.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses, for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-5						
Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 2,041,295	1,993,364	2.40%	1,525,870	1,467,687	3.96%
Support services	938,909	913,116	2.82%	874,035	851,030	2.70%
Other expenses	166,414	193,647	-14.06%	76,080	102,740	-25.95%
Totals	\$ 3,146,618	3,100,127	1.50%	2,475,985	2,421,457	2.25%

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$472,280.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$198,353.
- The net cost of governmental activities was financed with \$944,060 in property tax, \$125,320 of income surtax, \$204,621 in statewide sales, services and use tax, \$1,174,122 in unrestricted state grants, \$1,486 in interest income and \$199 in other general revenues net of transfers.

Business Type Activities

Revenues of the District's business type activities were \$109,241 and expenses were \$107,008. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, capital contributions and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$815,053; an increase from last year's ending fund balances of \$810,260. The primary reason for the increase in combined fund balances in fiscal 2013 is due to an increase of the fund balances in the Capital Projects Accounts.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$524,004 at June 30, 2012 to \$376,089 at June 30, 2013. The decrease in the General Fund balance is primarily due to a decrease in local and state source revenues as compared to the previous year.
- The District's Management Levy Fund balance increased from \$91,885 at June 30, 2012 to \$125,814 at June 30, 2013. As compared to the previous year, revenues and expenditures both increased. The increase in revenues outpaced the increase in expenditures guaranteeing the increase in fund balance at year end.
- The District's Capital Projects Accounts balance increased from \$136,277 at June 30, 2012 to \$245,134 at June 30, 2013. Amounts received during the year for local taxes increased and expenditures decreased as compared to the previous year ensuring the increase in overall balance.

Proprietary Funds Highlights

The School Nutrition Fund net position increased from \$18,361 at June 30, 2012 to \$20,594 at June 30, 2013, an increase of 12.16%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$57,706 more than budgeted revenues, a variance of 1.83%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$1,982,936, 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 5 to the financial statements. Depreciation expense for the year was \$128,774.

The original cost of the District's capital assets was \$4,184,075. Governmental funds account for \$4,105,513 with the remainder of \$78,562 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$201,333 at June 30, 2013, compared to \$159,113 reported at June 30, 2012. The increase was mostly the result of the addition of a new school bus.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 4,812	4,812	-	-	4,812	4,812	0.00%
Buildings	1,608,338	1,668,662	-	-	1,608,338	1,668,662	-3.62%
Land improvements	168,453	141,472	-	-	168,453	141,472	19.07%
Machinery and equipment	172,200	143,800	29,133	15,313	201,333	159,113	26.53%
Total	\$ 1,953,803	1,958,746	29,133	15,313	1,982,936	1,974,059	0.45%

Long-Term Debt

At June 30, 2013, the District had \$648,790 in total long-term debt outstanding. This represents an increase of 6.66% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

During the year ended June 30, 2013, the District had outstanding Qualified School Construction Bonds payable of \$250,000.

During the year ended June 30, 2013, the District had an outstanding capital lease payable on lighting equipment of \$90,881.

During the year ended June 30, 2013, the District had an outstanding bus lease payable of \$65,415.

The District had total outstanding termination benefits payable from the Special Revenue, Management Levy Fund of \$96,956 at June 30, 2013.

The District had a net OPEB liability of outstanding of \$145,538 at June 30, 2013.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2013	2012	2012-13
Qualified school construction bonds	\$ 250,000	250,000	0.00%
Lighting lease	90,881	98,500	-7.74%
Bus lease	65,415	-	100.00%
Termination benefits	96,956	150,583	-35.61%
Net OPEB liability	145,538	109,180	33.30%
Totals	<u>\$ 648,790</u>	<u>608,263</u>	<u>6.66%</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:

- While enrollment in fiscal year 2014 shows an increase in enrollment, the District expects to stay steady in future years.
- Health insurance premiums stayed the same for the fiscal year 2015, the District does expect an increase in salaries and other benefits.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

ESSEX COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 881,183	2,805	883,988
Receivables:			
Property tax:			
Delinquent	17,468	-	17,468
Succeeding year	1,064,181	-	1,064,181
Income surtax	109,372	-	109,372
Accounts	6,665	1,240	7,905
Due from other funds	11,600	-	11,600
Due from other governments	203,742	-	203,742
Inventories	-	835	835
Capital assets, net of accumulated depreciation	1,953,803	29,133	1,982,936
Total assets	4,248,014	34,013	4,282,027
Liabilities			
Due to other funds	-	11,600	11,600
Accounts payable	49,654	100	49,754
Salaries and benefits payable	255,951	763	256,714
Accrued interest payable	3,045	-	3,045
Deferred revenue:			
Succeeding year property tax	1,064,181	-	1,064,181
Unearned revenue	-	956	956
Long-term liabilities:			
Portion due within one year:			
Lighting lease payable	8,044	-	8,044
Bus lease payable	10,049	-	10,049
Termination benefits payable	53,408	-	53,408
Portion due after one year:			
Lighting lease payable	82,837	-	82,837
Bus lease payable	55,366	-	55,366
Qualified school construction bonds payable	250,000	-	250,000
Termination benefits payable	43,548	-	43,548
Net OPEB liability	145,538	-	145,538
Total liabilities	2,021,621	13,419	2,035,040
Net position			
Invested in capital assets, net of related debt	1,547,507	29,133	1,576,640
Restricted for:			
Categorical funding	10,445	-	10,445
Management levy purposes	28,858	-	28,858
Student activities	25,839	-	25,839
Debt service	39,564	-	39,564
School infrastructure	191,774	-	191,774
Physical plant and equipment	53,360	-	53,360
Unrestricted	329,046	(8,539)	320,507
Total net position	\$ 2,226,393	20,594	2,246,987

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 1,502,929	279,077	35,100	-	(1,188,752)	-	(1,188,752)
Special	253,346	40,043	11,618	-	(201,685)	-	(201,685)
Other	285,020	112,647	25,617	11,323	(135,433)	-	(135,433)
	<u>2,041,295</u>	<u>431,767</u>	<u>72,335</u>	<u>11,323</u>	<u>(1,525,870)</u>	<u>-</u>	<u>(1,525,870)</u>
Support services:							
Student services	67,319	-	680	-	(66,639)	-	(66,639)
Instructional staff	84,496	16,619	22,805	-	(45,072)	-	(45,072)
Administration	395,913	23,894	-	-	(372,019)	-	(372,019)
Operation and maintenance of plant	225,355	-	-	501	(224,854)	-	(224,854)
Transportation	165,826	-	375	-	(165,451)	-	(165,451)
	<u>938,909</u>	<u>40,513</u>	<u>23,860</u>	<u>501</u>	<u>(874,035)</u>	<u>-</u>	<u>(874,035)</u>
Long-term debt interest	6,167	-	-	-	(6,167)	-	(6,167)
Other expenditures:							
AEA flowthrough	90,334	-	90,334	-	-	-	-
Depreciation(unallocated)*	69,913	-	-	-	(69,913)	-	(69,913)
	<u>160,247</u>	<u>-</u>	<u>90,334</u>	<u>-</u>	<u>(69,913)</u>	<u>-</u>	<u>(69,913)</u>
Total governmental activities	3,146,618	472,280	186,529	11,824	(2,475,985)	-	(2,475,985)
Business type activities:							
Support services:							
Student services	129	-	-	-	-	(129)	(129)
Operation and maintenance of plant	200	-	-	-	-	(200)	(200)
Non-instructional programs:							
Nutrition services	106,679	49,717	41,896	-	-	(15,066)	(15,066)
Total business-type activities	<u>107,008</u>	<u>49,717</u>	<u>41,896</u>	<u>-</u>	<u>-</u>	<u>(15,395)</u>	<u>(15,395)</u>
Total	\$ 3,253,626	521,997	228,425	11,824	(2,475,985)	(15,395)	(2,491,380)
General Revenues and Transfers:							
General revenues:							
Property tax for:							
General purposes					\$ 918,608	-	918,608
Capital outlay					25,452	-	25,452
Income surtax					125,320	-	125,320
Statewide sales, services and use tax					204,621	-	204,621
Unrestricted state grants					1,174,122	-	1,174,122
Unrestricted investment earnings					1,486	1	1,487
Other general revenues					17,038	788	17,826
Transfers					(16,839)	16,839	-
Total general revenues and transfers					<u>2,449,808</u>	<u>17,628</u>	<u>2,467,436</u>
Change in net position					(26,177)	2,233	(23,944)
Net position beginning of year					2,252,570	18,361	2,270,931
Net position end of year					\$ 2,226,393	20,594	2,246,987

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

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Management Levy	Capital Projects	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 524,881	123,498	169,308	63,496	881,183
Receivables:					
Property tax					
Delinquent	14,684	2,316	468	-	17,468
Succeeding year	887,569	150,000	26,612	-	1,064,181
Income surtax	109,372	-	-	-	109,372
Accounts	2,085	-	-	4,580	6,665
Due from other funds	11,600	-	-	-	11,600
Due from other governments	128,384	-	75,358	-	203,742
Total assets	\$ 1,678,575	275,814	271,746	68,076	2,294,211
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 49,594	-	-	60	49,654
Salaries and benefits payable	255,951	-	-	-	255,951
Deferred revenue:					
Succeeding year property tax	887,569	150,000	26,612	-	1,064,181
Income surtax	109,372	-	-	-	109,372
Total liabilities	1,302,486	150,000	26,612	60	1,479,158
Fund balances:					
Restricted for:					
Categorical funding	10,445	-	-	-	10,445
Management levy purposes	-	125,814	-	-	125,814
Student activities	-	-	-	25,839	25,839
Debt service	-	-	-	42,609	42,609
School infrastructure	-	-	191,774	-	191,774
Physical plant and equipment	-	-	53,360	-	53,360
Unassigned:					
General	365,644	-	-	-	365,644
Student activities	-	-	-	(432)	(432)
Total fund balances	376,089	125,814	245,134	68,016	815,053
Total liabilities and fund balances	\$ 1,678,575	275,814	271,746	68,076	2,294,211

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances of governmental funds(page 20)	\$	815,053
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,953,803
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		109,372
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(3,045)
Long-term liabilities, including qualified school construction bonds payable, lighting lease payable, bus lease payable, termination benefits payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(648,790)
		(648,790)
Net position of governmental activities(page 18)	\$	2,226,393
		2,226,393

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Mangement Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 903,617	125,149	230,073	-	1,258,839
Tuition	268,192	-	-	-	268,192
Other	125,233	1,137	11,827	113,499	251,696
State sources	1,272,273	-	-	-	1,272,273
Federal sources	70,856	262	-	-	71,118
Total revenues	<u>2,640,171</u>	<u>126,548</u>	<u>241,900</u>	<u>113,499</u>	<u>3,122,118</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,425,365	69,348	-	-	1,494,713
Special	260,066	-	-	-	260,066
Other	159,723	-	-	117,018	276,741
	<u>1,845,154</u>	<u>69,348</u>	<u>-</u>	<u>117,018</u>	<u>2,031,520</u>
Support services:					
Student	68,902	-	-	-	68,902
Instructional staff	73,619	-	7,007	-	80,626
Administration	401,339	5,851	-	-	407,190
Operation and maintenance of plant	179,555	12,192	22,374	-	214,121
Transportation	129,183	5,228	77,492	-	211,903
	<u>852,598</u>	<u>23,271</u>	<u>106,873</u>	<u>-</u>	<u>982,742</u>
Capital outlay	-	-	85,373	-	85,373
Long-term debt:					
Principal	-	-	-	19,696	19,696
Interest and fiscal charges	-	-	-	5,505	5,505
	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,201</u>	<u>25,201</u>
Other expenditures:					
AEA flowthrough	90,334	-	-	-	90,334
Total expenditures	<u>2,788,086</u>	<u>92,619</u>	<u>192,246</u>	<u>142,219</u>	<u>3,215,170</u>
Excess(Deficiency) of revenues <input type="checkbox"/> over(under) expenditure/expenses	(147,915)	33,929	49,654	(28,720)	(93,052)
Other financing sources(uses):					
Transfer in	-	-	-	38,642	38,642
Transfer out	-	-	(38,642)	-	(38,642)
Proceeds from bus lease	-	-	77,492	-	77,492
Insurance proceeds	-	-	20,353	-	20,353
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>59,203</u>	<u>38,642</u>	<u>97,845</u>
Change in fund balances	(147,915)	33,929	108,857	9,922	4,793
Fund balances beginning of year	<u>524,004</u>	<u>91,885</u>	<u>136,277</u>	<u>58,094</u>	<u>810,260</u>
Fund balances end of year	<u>\$ 376,089</u>	<u>125,814</u>	<u>245,134</u>	<u>68,016</u>	<u>815,053</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2013

Change in fund balances - total governmental funds(page 22) \$ 4,793

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

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

Capital outlay	\$ 120,812	
Depreciation expense	(125,755)	(4,943)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 15,162

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.

Termination benefits	53,627	
Other postemployment benefits	(36,358)	17,269

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayments of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Issued exceeded current year repayments, as follows:

Issued	(77,492)	
Repaid	19,696	(57,796)

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.

(662)

Change in net position of governmental activities(page 19) \$ (26,177)

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUND
JUNE 30, 2013

		School Nutrition
Assets		
Cash and pooled investments	\$	2,805
Accounts receivable		1,240
Inventories		835
Capital assets, net of accumulated depreciation		29,133
Total assets		34,013
Liabilities		
Due to other funds		11,600
Accounts payable		100
Salaries and benefits payable		763
Unearned revenue		956
Total liabilities		13,419
Net position		
Invested in capital assets		29,133
Unrestricted		(8,539)
Total net position	\$	20,594

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
NONMAJOR PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 49,717
Miscellaneous	788
Total operating revenues	50,505
Operating expenses:	
Support services:	
Student services:	
Services	129
Operation and maintenance of plant:	
Services	200
	329
Non-instructional programs:	
Food service operations:	
Salaries	37,498
Benefits	5,924
Supplies	59,963
Depreciation	3,019
Other	275
	106,679
Total operating expenses	107,008
Operating loss	(56,503)
Non-operating revenues:	
State sources	807
Federal sources	41,089
Interest income	1
Total non-operating revenues	41,897
Change in net position before other financing sources	(14,606)
Other financing sources:	
Contributed capital	16,839
Change in net position	2,233
Net position beginning of year	18,361
Net position end of year	\$ 20,594

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

ESSEX COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
NONMAJOR PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 48,160
Cash received from miscellaneous operating activities	788
Cash payments to employees for services	(42,659)
Cash payments to suppliers for goods or services	(54,124)
Net cash used by operating activities	<u>(47,835)</u>
Cash flows from non-capital financing activities:	
Borrowings from General Fund	11,600
State grants received	807
Federal grants received	34,784
Net cash provided by non-capital financing activities	<u>47,191</u>
Cash flows from investing activities:	
Interest on investments	<u>1</u>
Net decrease in cash and cash equivalents	(643)
Cash and cash equivalents at beginning of year	<u>3,448</u>
Cash and cash equivalents at end of year	<u>\$ 2,805</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (56,503)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	6,305
Depreciation	3,019
Decrease in inventories	38
Increase in accounts receivable	(1,240)
Increase in accounts payable	100
Increase in salaries and benefits payable	763
Decrease in unearned revenue	(317)
Net cash used by operating activities	<u>\$ (47,835)</u>

Non-cash investing, captital and related financing activities:

During the year ended June 30, 2013, the District received \$6,305 of federal commodities.

During the year ended June 30, 2013, the Nutrition Fund received capital contributions in the amount of \$16,839 from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 NONMAJOR FIDUCIARY FUNDS
 JUNE 30, 2013

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 44,851	2,557
Liabilities		
Due to other groups	-	2,557
Net position		
Restricted for scholarships	\$ 44,851	-

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 NONMAJOR FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2013

		Private Purpose Trust	Scholarship
Additions			
Local sources:			
Gifts and contributions	\$	426	
Interest income		226	
Total additions		652	
Deductions			
Instruction:			
Other:			
Scholarships awarded			1,500
Change in net position			(848)
Net position beginning of year			45,699
Net position end of year	\$		44,851

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is 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 position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or

directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

The Management Levy Fund is used to account for resources used in the purchase of property insurance and payments for termination benefits incentives.

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

The District reports the following nonmajor proprietary fund:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position 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.

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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 Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

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

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

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

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

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

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

Unassigned - All amounts not included in other spendable classifications.

Restricted Net Position - In the government-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position 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.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2013 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, 2013, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$314,647 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) **Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
General	School Nutrition	\$ 11,600

The School Nutrition Fund is repaying the General Fund for salaries and benefits not paid before year end.

(4) Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
	Capital Projects:	
Debt Service	Statewide Sales, Services and Use Tax	\$ 38,642

A transfer of \$13,442 was needed from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund for the yearly escrow payment to Farmer's State Bank on the District's Qualified School Construction Bond indebtedness. Additional transfers of \$12,077 and \$13,123 were needed for the down payment on the District's bus lease and principal and interest payments on the lighting lease respectively.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,812	-	-	4,812
Total capital assets not being depreciated	4,812	-	-	4,812
Capital assets being depreciated:				
Buildings	2,904,582	-	-	2,904,582
Land improvements	255,479	36,570	-	292,049
Machinery and equipment	828,217	84,242	8,389	904,070
Total capital assets being depreciated	3,988,278	120,812	8,389	4,100,701
Less accumulated depreciation for:				
Buildings	1,235,920	60,324	-	1,296,244
Land improvements	114,007	9,589	-	123,596
Machinery and equipment	684,417	55,842	8,389	731,870
Total accumulated depreciation	2,034,344	125,755	8,389	2,151,710
Total capital assets being depreciated, net	1,953,934	(4,943)	-	1,948,991
Governmental activities capital assets, net	\$ 1,958,746	(4,943)	-	1,953,803
Business type activities:				
Machinery and equipment	\$ 61,723	16,839	-	78,562
Less accumulated depreciation	46,410	3,019	-	49,429
Business type activities capital assets, net	\$ 15,313	13,820	-	29,133

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 17,117
Other		6,739
Support services:		
Operation and maintenance of plant		560
Transportation		31,426
		<u>55,842</u>
Unallocated depreciation		<u>69,913</u>
		<u>125,755</u>
Total governmental activities depreciation expense		\$ 125,755
Business type activities:		
Food services		<u>\$ 3,019</u>

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Qualified school construction bonds	\$ 250,000	-	-	250,000	-
Lighting lease	98,500	-	7,619	90,881	8,044
Bus lease	-	77,492	12,077	65,415	10,049
Termination benefits	150,583	-	53,627	96,956	53,408
Net OPEB liability	109,180	36,358	-	145,538	-
Total	<u>\$ 608,263</u>	<u>113,850</u>	<u>73,323</u>	<u>648,790</u>	<u>71,501</u>

Qualified School Construction Bonds Payable

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

Lighting Lease Payable

On January 13, 2012, the District entered into a capital lease for the lightings for baseball and softball fields, payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Year Ending June 30,	Lighting Lease of January 13, 2012			
	Interest Rates	Principal	Interest	Total
2014	5.59%	\$ 8,044	5,079	13,123
2015	5.59	8,494	4,629	13,123
2016	5.59	8,969	4,154	13,123
2017	5.59	9,470	3,653	13,123
2018	5.59	9,999	3,124	13,123
2019-2022	5.59	45,905	6,588	52,493
Total		<u>\$ 90,881</u>	<u>27,227</u>	<u>118,108</u>

Bus Lease Payable

On December 15, 2012, the District entered into a lease purchase agreement with De Lage Landen Public Finance LLC for a Bluebird School Bus, payable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

Year Ending June 30,	Bus Lease of December 15, 2012				
	Interest Rates		Principal	Interest	Total
2014	3.10	% \$	10,049	2,028	12,077
2015	3.10		10,361	1,716	12,077
2016	3.10		45,005	1,395	46,400
Total			\$ 65,415	5,139	70,554

Termination Benefits (Early Retirement)

The District offers a voluntary early retirement plan to its certified employees. The plan is offered at the Board’s discretion on a year to year basis. Eligible employees must be a tenured contracted teacher, must have completed fifteen years of continuous service to the District and be at least age fifty-five. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2013, totaled \$53,627. A liability has been recorded in the Statement of Net Position representing the District’s commitment to fund non-current early retirement.

(7) 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 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District’s contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$129,262, \$119,524, and \$99,903 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical benefits for employees, retirees and their spouses. There are 24 active and 7 retired members in the plan. Retired participants must be age 55 or older at age of retirement.

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 93,921
Interest on net OPEB obligation	2,730
Adjustment to annual required contribution	(16,640)
Annual OPEB cost	<u>80,011</u>
Contributions made	(43,653)
Increase in net OPEB obligation	<u>36,358</u>
Net OPEB obligation beginning of year	<u>109,180</u>
Net OPEB obligation end of year	<u><u>\$ 145,538</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, 2013.

For the year ended June 30, 2013, the District contributed \$43,653 to the medical plan. Plan members eligible for the plan contributed \$42,861 or 49.54% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

For Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$67,232	66.07%	\$85,767
2012	\$70,100	66.60%	\$109,180
2012	\$80,011	54.56%	\$145,538

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$395,114, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$395,114. The covered payroll (annual payroll of active employees covered by the plan) was \$1,058,198 and the ratio of the UAAL to covered payroll was 37.34%. As of June 30, 2013, 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, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual health cost trend is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon the 2006 Society of Actuaries Study. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

The District’s contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2013 were \$328,958.

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

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$90,334 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Categorical Funding

The District’s ending restricted balance for categorical funding at June 30, 2013 is comprised of the following programs:

Programs	Amount
Home School Assistance Program	\$ 1,800
Gifted and Talented	6,317
Professional Development	2,328
Total	\$ 10,445

(12) Deficit Unassigned Fund Balance and Unrestricted Net Position

The Special Revenue: Student Activity Fund had one account with a deficit unassigned balance of \$432 at June 30, 2013. The Enterprise, School Nutrition Fund had a deficit unrestricted net position balance of \$8,539 at June 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,778,727	50,506	1,829,233	1,733,403	1,733,403	95,830
Intermediate sources	-	-	-	1,100	1,100	(1,100)
State sources	1,272,273	807	1,273,080	1,278,311	1,278,311	(5,231)
Federal sources	71,118	41,089	112,207	144,000	144,000	(31,793)
Total revenues	3,122,118	92,402	3,214,520	3,156,814	3,156,814	57,706
Expenditures/Expenses:						
Instruction	2,031,520	-	2,031,520	2,162,862	2,162,862	131,342
Support services	982,742	329	983,071	1,258,512	1,258,512	275,441
Non-instructional programs	-	106,679	106,679	113,910	113,910	7,231
Other expenditures	200,908	-	200,908	291,106	291,106	90,198
Total expenditures/expenses	3,215,170	107,008	3,322,178	3,826,390	3,826,390	504,212
Deficiency of revenues under expenditures/expenses	(93,052)	(14,606)	(107,658)	(669,576)	(669,576)	561,918
Other financing sources, net	97,845	16,839	114,684	15,000	15,000	99,684
Excess(Deficiency) of revenues and other financing sources over (under) expenditures/expenses	4,793	2,233	7,026	(654,576)	(654,576)	661,602
Balance beginning of year	810,260	18,361	828,621	812,357	812,357	16,264
Balance end of year	\$ 815,053	20,594	835,647	157,781	157,781	677,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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

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

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 515,752	515,752	0.00%	\$ 1,195,497	43.14%
2011	July 1, 2009	-	490,695	490,695	0.00%	1,208,653	40.60%
2012	July 1, 2009	-	428,899	428,899	0.00%	1,131,173	37.92%
2013	July 1, 2012	-	395,114	395,114	0.00%	1,058,198	37.34%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue		
	Student Activity	Debt Service	Total
Assets			
Cash and pooled investments	\$ 20,887	42,609	63,496
Accounts receivable	4,580	-	4,580
Total assets	\$ 25,467	42,609	68,076
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 60	-	60
Fund balances:			
Restricted for:			
Student activities	25,839	-	25,839
Debt service	-	42,609	42,609
Unassigned	(432)	-	(432)
Total fund balances	25,407	42,609	68,016
Total liabilities and fund balances	\$ 25,467	42,609	68,076

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Special Revenue		Total
	Student Activity	Debt Service	
Revenues:			
Local sources:			
Other	\$ 112,312	1,187	113,499
Expenditures:			
Current:			
Instruction:			
Other	117,018	-	117,018
Long-term debt:			
Principal	-	19,696	19,696
Interest and fiscal charges	-	5,505	5,505
Total expenditures	117,018	25,201	142,219
Deficiency of revenues under expenditures	(4,706)	(24,014)	(28,720)
Other financing sources:			
Transfer in	-	38,642	38,642
Change in fund balances	(4,706)	14,628	9,922
Fund balances beginning of year	30,113	27,981	58,094
Fund balances end of year	\$ 25,407	42,609	68,016

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant & Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 120,657	48,651	169,308
Receivables:			
Property tax:			
Delinquent	-	468	468
Succeeding year	-	26,612	26,612
Due from other governments	71,117	4,241	75,358
Total assets	\$ 191,774	79,972	271,746
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	26,612	26,612
Fund balances:			
Restricted for:			
School infrastructure	191,774	-	191,774
Physical plant and equipment	-	53,360	53,360
Total fund balances	191,774	53,360	245,134
Total liabilities and fund balances	\$ 191,774	79,972	271,746

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 204,621	25,452	230,073
Other	3	11,824	11,827
Total revenues	204,624	37,276	241,900
Expenditures:			
Support services:			
Instructional staff	6,506	501	7,007
Operation and maintenance of plant	16,839	5,535	22,374
Transportation	77,492	-	77,492
Capital outlay	66,612	18,761	85,373
Total expenditures	167,449	24,797	192,246
Excess of revenues over expenditures	37,175	12,479	49,654
Other financing sources(uses):			
Transfer out	(38,642)	-	(38,642)
Proceeds from bus lease	77,492	-	77,492
Insurance proceeds		20,353	20,353
Total other financing sources(uses)	38,850	20,353	59,203
Change in fund balances	76,025	32,832	108,857
Fund balances beginning of year	115,749	20,528	136,277
Fund balances end of year	\$ 191,774	53,360	245,134

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ -	5	-	5
Drama	3,257	707	509	3,455
Instrumental music	104	1,394	1,449	49
Athletics	3,241	42,493	43,632	2,102
JH VB tournament	84	-	-	84
Football fund	1,417	30	83	1,364
HS basketball	62	-	-	62
Softball girls	1,140	576	656	1,060
Class of 2010	633	-	-	633
Class of 2012	313	-	-	313
Class of 2013	1,493	13,949	13,772	1,670
Class of 2014	305	11,315	8,719	2,901
Class of 2015	223	260	32	451
Class of 2016	185	60	61	184
Class of 2017	67	145	183	29
Class of 2018	-	85	-	85
Pep club	770	327	499	598
School booster fund balance	3,237	29,382	31,017	1,602
E-Stars	503	999	1,247	255
GAB fund	5	-	-	5
Safety patrol	17	-	-	17
Claire McKinney music fund	416	-	-	416
Annual	8,697	7,558	11,289	4,966
National honor society	451	48	264	235
Concession equipment	362	266	-	628
Project class	123	-	-	123
Student council	3,440	2,713	3,606	2,547
Dance team	(432)	-	-	(432)
Total	\$ 30,113	112,312	117,018	25,407

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2013

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Assets						
Cash and pooled investments	\$ 990	21,421	19,705	2,273	462	44,851
Liabilities						
	-	-	-	-	-	-
Net Position						
Restricted for scholarships	\$ 990	21,421	19,705	2,273	462	44,851

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2013

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:						
Gifts and contributions	\$ -	-	160	-	266	426
Interest	-	100	100	25	1	226
Total additions	-	100	260	25	267	652
Deductions:						
Instruction:						
Other:						
Scholarships awarded	-	250	-	1,000	250	1,500
Change in net position	-	(150)	260	(975)	17	(848)
Net position beginning of year	990	21,571	19,445	3,248	445	45,699
Net position end of year	\$ 990	21,421	19,705	2,273	462	44,851

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2013

	Beginning Balance	Increases	Decreases	Ending Balance
JUST HELP KIDS				
Assets:				
Cash and other investments	\$ 800	275	280	795
Liabilities:				
Due to other groups	\$ 800	275	280	795
NURSE FUND				
Assets:				
Cash and other investments	\$ 1,520	749	507	1,762
Liabilities:				
Due to other groups	\$ 1,520	749	507	1,762
TOTAL				
Cash and other investments	\$ 2,320	1,024	787	2,557
Liabilities:				
Due to other groups	\$ 2,320	1,024	787	2,557

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 1,258,839	1,298,945	1,220,074	1,182,511	1,161,837	1,055,988	1,082,481	1,088,623	1,059,879	1,162,114
Tuition	268,192	251,482	190,737	137,499	144,879	172,999	169,071	133,075	121,086	153,736
Other	251,696	270,317	202,236	139,083	186,817	188,003	216,450	254,312	176,562	143,036
Intermediate sources	-	-	-	-	2,000	2,459	-	-	3,174	-
State sources	1,272,273	1,264,082	1,180,368	1,031,916	1,423,390	1,354,443	1,281,715	1,121,983	1,038,057	1,060,391
Federal sources	71,118	79,162	202,185	227,646	121,276	79,855	88,941	96,413	95,460	108,576
Total	\$ 3,122,118	3,163,988	2,995,600	2,718,655	3,040,199	2,853,747	2,838,658	2,694,406	2,494,218	2,627,853
Expenditures:										
Instruction:										
Regular	\$ 1,494,713	1,320,668	1,253,384	1,238,190	1,422,297	1,360,453	1,189,956	1,117,705	1,094,300	1,023,146
Special	260,066	252,318	253,096	229,700	218,744	189,187	139,147	134,904	138,480	167,814
Other	276,741	346,479	279,417	275,431	184,576	186,324	247,660	245,153	212,114	184,216
Support services:										
Student	68,902	62,830	39,006	68,166	91,984	90,473	82,955	69,713	42,331	24,112
Instructional staff	80,626	121,845	112,915	52,774	53,447	59,012	86,405	51,631	63,508	34,772
Administration	407,190	372,221	353,477	369,840	358,304	339,246	340,349	303,500	284,193	253,979
Operation and maintenance of plant	214,121	295,120	199,914	182,072	195,571	208,738	213,757	184,159	155,805	139,977
Transportation	211,903	156,648	113,782	106,127	90,669	109,306	114,733	94,646	77,486	97,851
Capital outlay	85,373	338,086	161,552	374,723	196,903	47,542	71,672	154,069	117,703	38,705
Long-term debt:										
Principal	19,696	-	-	-	100,000	160,000	160,000	155,000	170,127	154,251
Interest and other charges	5,505	-	-	-	3,700	8,660	13,140	16,937	21,394	24,215
Other expenditures:										
AEA flowthrough	90,334	90,907	101,583	100,586	96,514	87,568	84,149	74,390	78,350	73,674
Total	\$ 3,215,170	3,357,122	2,868,126	2,997,609	3,012,709	2,846,509	2,743,923	2,601,807	2,455,791	2,216,712

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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 on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Essex Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Essex Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Essex Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be a material weaknesses and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Essex Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which 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, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Essex Community School District's Responses to Findings

Essex Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Essex Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 18, 2014
Newton, Iowa

ESSEX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted

INTERNAL CONTROL DEFICIENCIES:

I-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas for the District.

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash.
- 2) Investments - investing, detailed recordkeeping, custody of investments and reconciling earnings.
- 3) Receipts - collecting, recording, depositing, journalizing, posting and reconciling.
- 4) Disbursements - purchase order processing, check preparation, mailing and recording.
- 5) Inventories - ordering, receiving, issuing and storing.
- 6) Capital assets - purchasing, recording and reconciling.
- 7) Wire transfers - processing and approving.
- 8) Payroll - recording approved pay rates and deductions, recordkeeping, preparation, posting and distribution.
- 9) Computer systems - performing all general accounting functions and controlling all data input and output.
- 10) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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

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

Conclusion - Response acknowledged.

I-B-13 Graduated Class Accounts - We noted during our audit that the Student Activity Fund has 2010 and 2012 class accounts.

Recommendation - Upon graduation, the remaining balance in the graduated class accounts should be redistributed to other individual activity fund accounts with board approval, used as startup funds for the next incoming class or used for purposes outlined by class officers before graduating, provided the expenditures meet District compliance.

Response - The District will follow the auditor's recommendation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - District disbursements for the year ended June 30, 2013 did not exceed the amounts budgeted certified budget.

II-B-13 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-13 Travel Expense - No travel advances to District officials or employees were noted; however, we noted that the District reimbursed the Superintendent for meals without a receipt. We also noted the superintendent charged meals to the District credit card when he took his mother to dinner.

Recommendation - According to board policy 401.10, employees must submit a detailed receipt for all expenses incurred, otherwise, the expenses are the responsibility of the employee. The Board should more closely monitor the superintendent's travel reimbursements and credit card expenses to make sure they meet public purpose and are in compliance with board policies. The superintendent should reimburse the District in the amount of \$15.50 for his mother's meal .

Response - The Superintendent reimbursed the District for these expenses. The Business Manager will closely monitor travel reimbursements.

Conclusion - Response accepted.

II-D-13 Business Transactions - Business transactions between the District and District employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Curtis Riley, Transportation Director Owns Babes Café	Catering	\$507

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

II-E-13 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-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-13 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-13 Supplementary Weighting - We noted supplementary weighting data certified to the Department of Education was overstated by 0.10 students.

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

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

Conclusion - Response accepted.

II-I-13 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-13 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-13 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$	115,749
Revenues:			
Sales tax revenues	\$	204,621	
Capital lease proceeds		77,492	
Other local revenues		3	
			<u>282,116</u>
			<u>397,865</u>
Expenditures/transfer out:			
School infrastructure construction	\$	46,122	
Equipment		118,981	
Other		2,346	
Transfer to other funds:			
Debt service fund		38,642	
			<u>206,091</u>
Ending Balance		\$	<u><u>191,774</u></u>

For the year ended June 30, 2013, the District reduced the following levy 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>
Physical plant and equipment levy	<u>\$ 0.33000</u>	<u>\$ 255,452</u>

II-M-13 Financial Condition - We noted during our audit that the Special Revenue: Student Activity Fund had one account with a deficit unassigned balance of \$432 at June 30, 2013. We also noted the Enterprise, School Nutrition Fund had a deficit unrestricted net position balance of \$8,539 at June 30, 2013.

Recommendation - The District should investigate alternatives to eliminate ways to eliminate the deficit in the Student Activity Fund. The District needs to review program costs compared to sales, labor costs of staff, balances of individual student accounts and possible issues with internal controls and reporting in the School Nutrition Fund. The District should consider raising meal prices to bring the Nutrition Fund back to a level of self-sustainability.

Response - The District made cuts in the nutrition program and also has an agreement to sell product to a daycare. While District enrollment increased during fiscal year 2014, the program is running net positive with hopes of paying back all the money to the General Fund. The Athletic Fund in the Student Activity Fund will eliminate this negative fund balance.

Conclusion - Response accepted.