

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

Financial Report
Year Ended June 30, 2013

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Northeast Community School District

Officials

Year Ended June 30, 2013

Name	Title	Term Expires
Board of Education		
Charles Corr	President	2015
Mark Neblung	Vice President	2013
Andy Fredrichsen	Board Member	2013
Richard Krogmann	Board Member	2015
William Costello	Board Member	2015

School Officials

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

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Independent Auditor's Report

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

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 the Northeast Community School District, 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 as 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 accounting principles generally accepted in the United States of America; 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity'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 entity'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 that 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 the Northeast 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 accounting principles generally accepted in the United States of America.

Emphasis Of Matter

As discussed in Note 14 to the basic financial statements, the District adopted Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2013. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, and budgetary comparison information, on pages 4–13 and 43-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the other information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and other information are the responsibility of management and were derived from and relate 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The District's basic financial statements for the years ended June 30, 2004 through 2010, which are not presented herein, were audited by other auditors whose report thereon dated March 21, 2011, expressed unmodified opinions on the basic financial statements. Their report on the Schedule of Revenues by Source and Expenditures by Function for the years ended June 30, 2004 through 2010 stated that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statements as a whole for the years ended June 30, 2004 through 2010 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 19, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bohnsack & Frommelt LLP

Overland Park, Kansas
March 19, 2014

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Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

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

Financial Highlights

- General fund revenues decreased from \$7,715,163 in fiscal year 2012 to \$7,580,079 in fiscal year 2013. General fund expenditures increased from \$7,271,226 in fiscal year 2012 to \$7,748,354 in fiscal year 2013. This resulted in a decrease in the District's General fund balance from \$1,706,731 to \$1,538,456. This represents a 9.8% decrease from the prior year.
- As of June 30, 2013, the District's governmental funds reported combined ending fund balances of \$9,423,074, an increase of \$7,279,906 in comparison with 2012. Of the total combined fund balance, \$1,397,349 represents unassigned fund balance. As of June 30, 2012, the District's governmental funds reported combined ending fund balances of \$2,143,168, a decrease of \$603,325 in comparison with 2011. Of the total combined fund balance for fiscal year 2012, \$1,605,868 represented unassigned fund balance.
- The District reported an increase in net position of \$1,702,761 during the year ended June 30, 2012. The District reported an increase in net position of \$10,759 during the year ended June 30, 2013.

Using this Annual Report

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

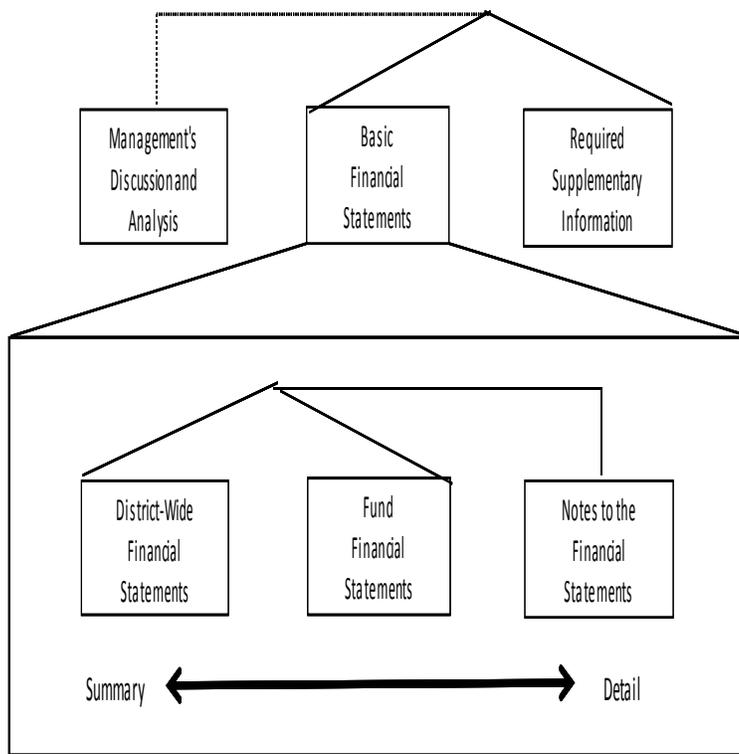
- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Northeast Community School District as a whole and present an overall view of the District's finances.
- The fund financial statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report Northeast Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information further explains and supports the financial statements with a comparison of the District's budget for the year.
- Other supplementary information provides detailed information about the nonmajor governmental funds.

Northeast Community School District

**Management's Discussion and Analysis
Year Ended June 30, 2013**

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

Figure A-1
Northeast Community School District Annual Financial Report



Northeast Community School District

**Management’s Discussion and Analysis
Year Ended June 30, 2013**

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

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
Government-Wide Statements		Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: school nutrition and internal service fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs, reunion moneys and funds for District employee purchases of pop, etc.
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows	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 the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

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

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

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help it cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

The District has two kinds of funds:

- 1) **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between the two statements. The District's major governmental funds for fiscal year 2013 were the General Fund, Capital Projects Fund, and Debt Service Fund. The nonmajor governmental funds include two Special Revenue Funds (the Management Fund and Student Activity Fund). The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The required financial statements for proprietary funds include a statement of net position, a statement of revenues, expenses and changes in net position and a statement of cash flows.

The District does not have any fiduciary funds. Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

Government-Wide Financial Analysis

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

Figure A-3 Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	
Current and other assets	\$ 5,673,809	\$ 13,147,222	\$ 138,213	\$ 105,196	\$ 5,812,022	\$ 13,252,418	128.0%
Capital assets	11,845,338	11,852,348	96,906	108,632	11,942,244	11,960,980	0.2%
Total assets	17,519,147	24,999,570	235,119	213,828	17,754,266	25,213,398	42.0%
Long-term liabilities	4,399,412	11,571,120	1,819	1,819	4,401,231	11,572,939	162.9%
Other liabilities	735,580	937,012	5,798	5,280	741,378	942,292	27.1%
Total liabilities	5,134,992	12,508,132	7,617	7,099	5,142,609	12,515,231	143.4%
Deferred inflows of resources	2,493,281	2,569,032	-	-	2,493,281	2,569,032	3.0%
Net position:							
Net investment in capital assets	7,603,338	7,759,890	96,906	108,632	7,700,244	7,868,522	2.2%
Restricted	605,717	862,977	-	-	605,717	862,977	42.5%
Unrestricted	1,681,819	1,299,539	130,596	98,097	1,812,415	1,397,636	-22.9%
Total net position	\$ 9,890,874	\$ 9,922,406	\$ 227,502	\$ 206,729	\$ 10,118,376	\$ 10,129,135	0.1%

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

The District's combined net position as of June 30, 2013 grew by \$10,759 (0.1 percent) over the June 30, 2012 combined net position. Net position in the governmental activities grew by \$31,532. The net position of the District's business-type activities decreased by \$20,773.

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

Restricted net position represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased by \$257,290 or 42.5 percent from the prior year. The increase was primarily a result of increases to the debt service sinking fund requirements.

Unrestricted net position (the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements) decreased by \$414,779 or 22.9 percent.

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

Figure A-4 Changes in Net Position From Operating Results

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	
Revenues:							
Program revenues:							
Charges for services	\$ 2,622,193	\$ 2,601,712	\$ 233,045	\$ 223,351	\$ 2,855,238	\$ 2,825,063	-1.1%
Operating grants and contributions	922,500	892,735	179,836	207,103	1,102,336	1,099,838	-0.2%
Capital grants and contributions	277,635	65,298	-	-	277,635	65,298	-76.5%
General revenues:							
Property taxes	2,441,666	2,579,407	-	-	2,441,666	2,579,407	5.6%
Income surtax	238,707	257,568	-	-	238,707	257,568	7.9%
State foundation aid	2,287,656	2,180,341	-	-	2,287,656	2,180,341	-4.7%
Statewide sales and services tax	456,149	356,220	-	-	456,149	356,220	-21.9%
Other	48,911	32,577	1,103	866	50,014	33,443	-33.1%
Total revenues	9,295,417	8,965,858	413,984	431,320	9,709,401	9,397,178	-3.2%
Expenses:							
Instruction	4,921,782	5,324,943	-	-	4,921,782	5,324,943	8.2%
Support services	2,097,849	2,829,500	15,527	22,909	2,113,376	2,852,409	35.0%
Noninstructional programs	519	2,500	396,170	429,184	396,689	431,684	8.8%
Other	574,793	777,383	-	-	574,793	777,383	35.2%
Total expenses	7,594,943	8,934,326	411,697	452,093	8,006,640	9,386,419	17.2%
Transfers	(30,981)	-	30,981	-	-	-	-
Increase (decrease) in net position	\$ 1,669,493	\$ 31,532	\$ 33,268	\$ (20,773)	\$ 1,702,761	\$ 10,759	

In 2012-13, local taxes (property taxes and statewide sales and services tax) and state foundation aid accounted for 59.9 percent of the revenue from governmental activities. Charges for services and operating grants and contributions accounted for 99.7 percent of the revenue from business-type activities. In 2011-12, local taxes and state foundation aid accounted for 54.5 percent of the revenue from governmental activities while charges for services and operating grants and contributions accounted for 99.7 percent of the revenue from business-type activities.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

The District's expenses primarily relate to instructional and support services which account for 87.1 percent and 87.9 percent of the total expenses in fiscal years 2013 and 2012, respectively.

Total revenue for the District decreased by \$312,223 (3.2 percent) in the fiscal year ended June 30, 2013. The most significant revenue category changes were in capital grants and contributions. Capital grants and contributions decreased \$212,337 for the construction of the Fine Arts Building and Auditorium under the Hazard Mitigation Program that primarily occurred in prior years.

Total District expenses increased 17.2 percent in 2012-13 primarily due to increased interest expense for outstanding bonds and operating costs due to growth in facilities and enrollment. Total District expenses increased by 4.5 percent in 2011-12. The District's enrollment continued to grow in 2011-12 as its certified enrollment was up by 97 students over 2010-11.

Governmental Activities

Governmental activities net position as of June 30, 2013 increased by \$31,532 (0.3 percent) over the June 30, 2012 balance. Revenue for the District's governmental activities in 2012-2013 decreased by \$329,559 (3.5 percent) from the previous year, while total expenses increased by \$1,339,383 (17.6 percent). The following table presents the total and net cost of the District's four major governmental activities: instruction, support services, noninstructional programs and other expenses, for the year ended June 30, 2013 compared to the year ended June 30, 2012:

Figure A-5 Net Cost of Governmental Activities

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	June 30, 2012	June 30, 2013	Change June 30, 2013	June 30, 2012	June 30, 2013	Change June 30, 2013
Instruction	\$ 4,921,782	\$ 5,324,943	8.19%	\$ 1,677,006	\$ 2,128,608	26.9%
Support services	2,097,849	2,829,500	34.88%	1,712,949	2,658,388	55.2%
Noninstructional	519	2,500	381.70%	519	2,500	381.7%
Other	574,793	777,383	35.25%	382,141	585,085	53.1%
	<u>\$ 7,594,943</u>	<u>\$ 8,934,326</u>	17.64%	<u>\$ 3,772,615</u>	<u>\$ 5,374,581</u>	42.5%

For the year ended June 30, 2013:

- The cost financed by the users of the District's programs was \$2,601,712.
- Federal and state governments and some local sources subsidized certain programs with grants and contributions totaling \$958,033.
- The net cost of governmental activities was financed with \$2,579,407 in property taxes, \$2,180,341 of unrestricted state grants, \$356,220 in statewide sales and services tax revenue, \$257,568 in income surtax revenue, and \$32,577 in investment earnings.

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

For the year ended June 30, 2012:

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

Business-Type Activities

Revenues of the District's business-type activities were \$431,320 and expenses were \$452,093. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Individual Fund Analysis

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$9,423,074, which is above last year's ending fund balances of \$2,143,168. The primary reason for the increase in combined fund balances at the end of fiscal 2013 is due to the issuance of new general obligation bonds.

Governmental Fund Highlights

- The fund balance in the District's General Fund decreased by \$168,275 from \$1,706,731 as of June 30, 2012 to \$1,538,456 as of June 30, 2013. The decrease is mainly due to increases in expenditures while revenues did not significantly increase.
- The fund balance in the Capital Projects Fund increased by \$7,227,164 during 2012-13. This increase was from the issuance of \$7.5 million in general obligation bonds for future capital improvements.
- The fund balance of the Debt Service Fund increased \$209,191 from \$403,613 as of June 30, 2012 to \$612,804 as of June 30, 2013. The increase is mainly due to the \$177,537 annual transfer from the Capital Projects Fund to the debt service reserve as required by the bonds.

Proprietary Fund Highlights

The School Nutrition Fund net position decreased from \$227,502 as of June 30, 2012 to \$296,729 as of June 30, 2013. The decrease was mainly due to increases in food costs.

Budgetary Highlights

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District uses the

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

GAAP (Generally Accepted Accounting Principles) method of accounting for budgeting purposes. Iowa law requires that actual spending in each functional area of the budget does not exceed the amount budgeted to be spent in that functional area at any time during the fiscal year. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. The budget was not amended during the 2012-2013 school year.

The District's revenues were approximately \$1.2 million more than budgeted revenues. The District received more in federal and local sources that originally anticipated. The District's expenditures were approximately \$32,000 more than budgeted.

Capital Asset and Debt Administration

Capital Assets

By the end of the 2012-13 fiscal year, the District had invested \$11,960,980 (net of accumulated depreciation of \$6,927,557) in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. (See Figure A-6). This amount represents a net increase of \$18,736 from last year. (More detailed information about capital assets can be found in Note 5 to the financial statements). Total depreciation expense for the year was \$489,312.

Figure A-6 Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	
Land	\$ 202,905	\$ 202,905	\$ -	\$ -	\$ 202,905	\$ 202,905	0.0%
Buildings	10,729,150	10,527,601	30,361	29,741	10,759,511	10,557,342	-1.9%
Improvements other than buildings	672,153	699,704	-	-	672,153	699,704	4.1%
Furniture and equipment	241,130	157,103	66,545	78,891	307,675	235,994	-23.3%
Construction in progress	-	265,035	-	-	-	265,035	N/A
Total	\$ 11,845,338	\$ 11,852,348	\$ 96,906	\$ 108,632	\$ 11,942,244	\$ 11,960,980	0.2%

Northeast Community School District

Management's Discussion and Analysis Year Ended June 30, 2013

Long-Term Liabilities

As of June 30, 2013, the District had \$11,362,559 in general obligation and other long-term debt outstanding. This represents an increase of \$7,120,559 from the prior year. See Figure A-7 below. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7 Outstanding Long-Term Obligations

	Governmental Activities		Business-Type Activities		Total School District		Total Percentage Change
	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012	June 30, 2013	
General obligation bonds	\$ 940,000	\$ 8,060,559	\$ -	\$ -	\$ 940,000	\$ 8,060,559	757.5%
Qualified school construction bonds	3,302,000	3,302,000	-	-	3,302,000	3,302,000	-
Early retirement	37,965	48,505	-	-	37,965	48,505	27.8%
Net OPEB liability	119,447	160,056	1,819	1,819	121,266	161,875	33.5%
Total	\$ 4,399,412	\$ 11,571,120	\$ 1,819	\$ 1,819	\$ 4,401,231	\$ 11,572,939	162.9%

Economic Factors Bearing on the District's Future

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

- Continued budget concerns at the state level will likely affect the District in the next several years.
- The creation of a new school district in the area will most likely impact the whole-grade sharing revenue the District had anticipated for the next three years.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kristy Weiss, Business Manager, Northeast Community School District, P.O. Box 66, Goose Lake, Iowa 52750.

Northeast Community School District

Statement of Net Position June 30, 2013

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and pooled investments	\$ 9,055,036	\$ 98,220	\$ 9,153,256
Receivables:			
Property tax:			
Current year	90,853	-	90,853
Succeeding year	2,569,032	-	2,569,032
Income surtax	245,972	155	246,127
Due from other governments	653,717	-	653,717
Inventories	-	6,821	6,821
Restricted cash	532,612	-	532,612
Capital assets:			
Nondepreciable	467,940	-	467,940
Depreciable, net	11,384,408	108,632	11,493,040
Total assets	24,999,570	213,828	25,213,398
Liabilities			
Accounts payable	202,940	754	203,694
Salaries and benefits payable	706,204	-	706,204
Accrued interest payable	27,868	-	27,868
Unearned revenue	-	4,526	4,526
Long-term liabilities:			
Portion due within one year:			
Early retirement	32,337	-	32,337
General obligation bonds	315,000	-	315,000
Portion due after one year:			
Early retirement	16,168	-	16,168
General obligation bonds	7,745,559	-	7,745,559
Qualified school construction bonds	3,302,000	-	3,302,000
Net OPEB liability	160,056	1,819	161,875
Total liabilities	12,508,132	7,099	12,515,231
Deferred inflows of resources, unavailable revenue	2,569,032	-	2,569,032
Net Position			
Net investment in capital assets	7,759,890	108,632	7,868,522
Restricted for:			
Categorical funding	141,107	-	141,107
Debt service	612,804	-	612,804
Management levy	8,683	-	8,683
Student activities	64,644	-	64,644
Physical plant and equipment	35,739	-	35,739
Unrestricted	1,299,539	98,097	1,397,636
Total net position	\$ 9,922,406	\$ 206,729	\$ 10,129,135

See Notes to Financial Statements.

Northeast Community School District

**Statement of Activities
Year Ended June 30, 2013**

Functions/Programs	Expenses
Governmental activities:	
Instruction:	
Regular instruction	\$ 3,367,100
Special instruction	1,193,277
Other	764,566
	<u>5,324,943</u>
Support services:	
Student services	377,449
Instructional staff services	227,329
Administration services	880,704
Operation and maintenance of plant services	807,275
Transportation services	536,743
	<u>2,829,500</u>
Noninstructional programs	<u>2,500</u>
Other expenditures:	
Long term debt interest	230,747
AEA flowthrough	192,298
Depreciation (unallocated) *	354,338
	<u>777,383</u>
Total governmental activities	<u>8,934,326</u>
Business-Type Activities:	
Support services:	
Administration services	11,326
Operation and maintenance of plant services	11,583
	<u>22,909</u>
Noninstructional programs, food service operations	<u>429,184</u>
Total business-type activities	<u>452,093</u>
Total	<u>\$ 9,386,419</u>
General revenues and transfers:	
General revenues:	
Property tax levied for:	
General purposes	
Capital outlay	
Debt service	
Statewide sales and services tax	
Income surtax	
Unrestricted state grants	
Unrestricted investment earnings	
Transfers	
Total general revenues and transfers	
Change in net position	
Net position, beginning of year	
Net position, end of year	

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

See Notes to Financial Statements.

Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ 1,852,037	\$ 501,297	\$ -	\$ (1,013,766)	\$ -	\$ (1,013,766)
548,176	87,657	-	(557,444)	-	(557,444)
201,499	5,669	-	(557,398)	-	(557,398)
2,601,712	594,623	-	(2,128,608)	-	(2,128,608)
-	103,939	-	(273,510)	-	(273,510)
-	-	-	(227,329)	-	(227,329)
-	-	-	(880,704)	-	(880,704)
-	-	65,298	(741,977)	-	(741,977)
-	1,875	-	(534,868)	-	(534,868)
-	105,814	65,298	(2,658,388)	-	(2,658,388)
-	-	-	(2,500)	-	(2,500)
-	-	-	(230,747)	-	(230,747)
-	192,298	-	-	-	-
-	-	-	(354,338)	-	(354,338)
-	192,298	-	(585,085)	-	(585,085)
2,601,712	892,735	65,298	(5,374,581)	-	(5,374,581)
-	-	-	-	(11,326)	(11,326)
-	-	-	-	(11,583)	(11,583)
-	-	-	-	(22,909)	(22,909)
223,351	207,103	-	-	1,270	1,270
223,351	207,103	-	-	(21,639)	(21,639)
\$ 2,825,063	\$ 1,099,838	\$ 65,298	(5,374,581)	(21,639)	(5,396,220)
			1,999,512	-	1,999,512
			59,567	-	59,567
			520,328	-	520,328
			356,220	-	356,220
			257,568	-	257,568
			2,180,341	-	2,180,341
			32,577	866	33,443
			-	-	-
			5,406,113	866	5,406,979
			31,532	(20,773)	10,759
			9,890,874	227,502	10,118,376
			\$ 9,922,406	\$ 206,729	\$ 10,129,135

Northeast Community School District

**Balance Sheet
Governmental Funds
June 30, 2013**

	General	Capital Projects	Debt Service	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,625,204	\$ 7,301,003	\$ 63,019	\$ 65,810	\$ 9,055,036
Receivables:					
Property tax:					
Current year	61,396	4,837	17,173	7,447	90,853
Succeeding year	1,675,705	175,330	467,997	250,000	2,569,032
Income surtax	245,972	-	-	-	245,972
Due from other funds	54,872	-	-	-	54,872
Due from other governments	583,628	70,019	-	70	653,717
Restricted cash	-	-	532,612	-	532,612
Total assets	\$ 4,246,777	\$ 7,551,189	\$ 1,080,801	\$ 323,327	\$ 13,202,094
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Accounts payable	\$ 80,440	\$ 122,500	\$ -	\$ -	\$ 202,940
Salaries and benefits payable	706,204	-	-	-	706,204
Due to other funds	-	54,872	-	-	54,872
Total liabilities	786,644	177,372	-	-	964,016
Deferred inflows of resources, unavailable revenue:					
Succeeding year property tax	1,675,705	175,330	467,997	250,000	2,569,032
Income surtax	245,972	-	-	-	245,972
Total deferred inflows of resources	1,921,677	175,330	467,997	250,000	2,815,004
Fund balances:					
Restricted for:					
Categorical funding	141,107	-	-	-	141,107
Debt service	-	-	612,804	-	612,804
Management levy	-	-	-	8,683	8,683
Student activities	-	-	-	64,644	64,644
School infrastructure	-	26,752	-	-	26,752
Physical plant and equipment	-	35,739	-	-	35,739
Capital improvements	-	7,135,996	-	-	7,135,996
Unassigned	1,397,349	-	-	-	1,397,349
Total fund balances	1,538,456	7,198,487	612,804	73,327	9,423,074
Total liabilities, deferred inflows of resources and fund balances	\$ 4,246,777	\$ 7,551,189	\$ 1,080,801	\$ 323,327	\$ 13,202,094

See Notes to Financial Statements.

Northeast 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	\$ 9,423,074
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	11,852,348
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the funds	245,972
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	(27,868)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(11,571,120)
Net position of governmental activities	<u>\$ 9,922,406</u>

See Notes to Financial Statements.

Northeast Community School District

**Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013**

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,118,097	\$ 438,442	\$ 520,328	\$ 131,573	\$ 3,208,440
Tuition	2,179,509	-	-	-	2,179,509
Other	209,709	65,440	17,890	227,038	520,077
State sources	2,826,487	25	231	57	2,826,800
Federal sources	246,277	45,762	-	-	292,039
Total revenues	7,580,079	549,669	538,449	358,668	9,026,865
Expenditures:					
Current:					
Instruction:					
Regular	3,193,935	41,106	-	59,406	3,294,447
Special	1,193,277	-	-	-	1,193,277
Other	543,047	-	-	221,519	764,566
	4,930,259	41,106	-	280,925	5,252,290
Support services:					
Student services	377,449	-	-	-	377,449
Instructional staff services	227,329	-	-	-	227,329
Administration services	875,228	-	-	4,676	879,904
Operation and maintenance of plant services	720,826	-	-	45,605	766,431
Transportation services	424,965	12,350	-	13,136	450,451
	2,625,797	12,350	-	63,417	2,701,564
Noninstructional programs	-	-	-	2,500	2,500
Other expenditures:					
Debt service:					
Principal	-	-	475,000	-	475,000
Interest and fiscal charges	-	176,283	31,795	-	208,078
Facilities acquisition	-	510,788	-	-	510,788
AEA flowthrough	192,298	-	-	-	192,298
	192,298	687,071	506,795	-	1,386,164
Total expenditures	7,748,354	740,527	506,795	346,842	9,342,518
Revenues under (over) expenditures	(168,275)	(190,858)	31,654	11,826	(315,653)
Other financing sources (uses):					
Issuance of bonds	-	7,500,000	-	-	7,500,000
Premium on bond issuance	-	95,559	-	-	95,559
Interfund transfers in	-	-	177,537	-	177,537
Interfund transfers out	-	(177,537)	-	-	(177,537)
Total other financing sources (uses)	-	7,418,022	177,537	-	7,595,559
Net change in fund balance	(168,275)	7,227,164	209,191	11,826	7,279,906
Fund balances (deficits), beginning of year	1,706,731	(28,677)	403,613	61,501	2,143,168
Fund balances, end of year	\$ 1,538,456	\$ 7,198,487	\$ 612,804	\$ 73,327	\$ 9,423,074

See Notes to Financial Statements.

Northeast Community School District

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities
Year Ended June 30, 2013**

Net change in fund balances - total governmental funds \$ 7,279,906

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.:

Capital outlay	\$ 482,973	
Depreciation expense	<u>(475,963)</u>	7,010

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (61,007)

The issuance of debt provides current financial resources to governmental funds; however, the issuance increases liabilities in the Statement of Net Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Issuance of bonds	(7,500,000)	
Bond premium on issuance	(95,559)	
Repayment of long-term debt	475,000	
Change in accrued interest payable	<u>(22,669)</u>	(7,143,228)

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

Early retirement	(10,540)	
Net OPEB liability	<u>(40,609)</u>	(51,149)

Change in net position of governmental activities	\$	<u><u>31,532</u></u>
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See Notes to Financial Statements.

Northeast Community School District

Statement of Net Position

Proprietary Fund

June 30, 2013

	<u>Enterprise Fund</u> <u>School</u> <u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 98,220
Accounts receivable	155
Inventories	6,821
Capital assets, net of accumulated depreciation	108,632
Total assets	<u>213,828</u>
Liabilities	
Accounts payable	754
Unearned revenue	4,526
Net OPEB liability	1,819
Total liabilities	<u>7,099</u>
Net Position	
Net investment in capital assets	108,632
Unrestricted	98,097
Total net position	<u>\$ 206,729</u>

See Notes to Financial Statements.

Northeast Community School District

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Fund

Year Ended June 30, 2013

	Enterprise Fund
	School
	Nutrition
	<u> </u>
Operating revenues:	
Local sources, charges for services	\$ 223,351
Operating expenses:	
Support services:	
Administration:	
Salaries	6,981
Benefits	4,345
Operation and maintenance of plant:	
Services	11,583
Total support services	<u>22,909</u>
Noninstructional programs:	
Food service operations:	
Salaries	119,679
Benefits	28,263
Purchased services	6,922
Supplies	260,971
Depreciation	13,349
	<u>429,184</u>
Total expenses	<u>452,093</u>
Operating (loss)	<u>(228,742)</u>
Nonoperating revenues:	
Interest on investments	866
State sources	4,075
Federal sources	203,028
Total nonoperating revenues	<u>207,969</u>
Change in net position	(20,773)
Net position, beginning of year	<u>227,502</u>
Net position, end of year	<u>\$ 206,729</u>

See Notes to Financial Statements.

Northeast Community School District

**Statement of Cash Flows
Proprietary Fund
Year Ended June 30, 2013**

	Enterprise Fund
	School
	Nutrition
	<u> </u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 222,711
Cash payments to employees for services	(159,268)
Cash payments to suppliers for goods or services	(251,270)
Net cash (used in) operating activities	<u>(187,827)</u>
Cash flows from noncapital financing activities:	
State grants received	4,075
Federal grants received	174,944
Net cash provided by noncapital financing activities	<u>179,019</u>
Cash flows from capital financing activities, purchase of capital assets	<u>(25,075)</u>
Cash flows from investing activities, interest on investments	<u>866</u>
Net (decrease) in cash and cash equivalents	(33,017)
Cash and cash equivalents, beginning of year	131,237
Cash and cash equivalents, end of year	<u>\$ 98,220</u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (228,742)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	13,349
Commodities used	28,084
Decrease in unearned revenue	(640)
Increase in accounts payable	122
Increase in net OPEB liability	-
Net cash (used in) operating activities	<u>\$ (187,827)</u>
Schedule of noncash items:	
Noncapital financing activities, federal commodities	<u>\$ 28,084</u>

See Notes to Financial Statements.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

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

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

Reporting entity:

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

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

Basis of presentation:

District-wide financial statements: The Statement of Net 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 service.

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:

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

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Restricted net position results 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.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

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

The District also has two nonmajor governmental funds:

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

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

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The Student Activity Fund is used to support cocurricular programs.

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

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

Measurement focus and basis of accounting:

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

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

Revenues – exchange and nonexchange transactions: Property taxes, other taxes, grants, entitlements and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which it is budgeted. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Assets, liabilities and fund equity:

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

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

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

Property tax receivable: Property tax in governmental funds is accounted for using the modified accrual basis of accounting. Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is unavailable in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

The property tax revenue recognized in the governmental funds becomes due and collectible in September and March of the fiscal year with 1 ½ percent per month penalty for delinquent payments; is based on the 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 governmental commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital assets: Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net 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	\$ 1
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	100,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

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

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

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

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

Nonspendable: Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed: Amounts which can be used only for specific purposes pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year-end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Assigned: Amounts the Board of Education intend to use for specific purposes. The authority to assign fund balances has been delegated to the Business Manager through the Board approved budget of the District.

Unassigned: All amounts not included in other spendable classifications as well as any deficit fund balance of any other governmental fund is reported as unassigned.

The District's flow of funds assumption prescribes that the funds with the highest level of constraint are expended first. If restricted or unrestricted funds are available for spending, the restricted funds are spent first. Additionally, if different levels of unrestricted funds are available for spending, the District considers committed funds to be expended first followed by assigned funds and then unassigned.

Deferred outflows/inflows of resources: In addition to assets, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of fund balance or net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The District does not have deferred outflows of resources as of June 30, 2013.

In addition to liabilities, the balance sheet and/or statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance or net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports unavailable revenue in the governmental funds

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

balance sheet from the income surtax and property tax. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. In the District's government-wide statements, only the succeeding year property tax revenues remain as a deferred inflow of resources under the full accrual basis of accounting and will become an inflow in the year for which levied.

Net position: In proprietary funds, fiduciary funds, and government-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds of \$7,270,101. Net position is reported as restricted when there are limitations imposed on their use through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Net position restricted through enabling legislation consists of \$35,739 for physical plant and equipment levy, \$8,683 for management levy and \$612,804 for debt service. All other restricted net position consists of \$141,107 for categorical funding and \$64,644 for student activities and are restricted by grantors and donors.

Net position flow assumption: Sometimes the District will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

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

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

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

Northeast Community School District

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Budgets and budgetary control:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures did not exceed the amounts budgeted in total or by function.

Note 2. Cash and Pooled Investments

The District's cash and pooled investment consisted of depository accounts at financial institutions including certificate of deposits. The District's deposits in banks as of June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

As of June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust Diversified Fund which are valued at an amortized cost of \$7,286,594 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

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

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

Transfer To	Transfer From	Amount
Debt Service Fund	Capital Projects Fund	\$ 177,537

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

The detail of due to/due from other funds for the year ended June 30, 2013 is as follows:

Due to	Due from	Amount
Capital Projects Fund	General Fund	\$ 54,872

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

Northeast Community School District

Notes to Basic Financial Statements

Note 4. Whole Grade Sharing

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

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

The term of the agreement began with the 2011-12 school fiscal year and shall renew each year thereafter so as to continue with a three year contract in effect at all times. In the event either party wishes to terminate the agreement, the termination may be accomplished by either party giving written notice to the other by the 15th day of December of any school year. The District recognized \$536,361 of revenue in fiscal year 2013 under the agreement and accepted approximately 95 students.

The District and ECCSD also entered into a Facility Improvement Program Agreement for the same term as the Whole Sharing Agreement. Under the Facility Improvement Program Agreement, ECCSD has agreed to annually provide additional monies from sales tax revenues to benefit the ECCSD secondary students attending the District. In March of each year, the ECCSD will estimate the amount of sales tax revenues to remit to the District for the Facility Improvement Program in the next school year. ECCSD is only obligated to restrict and remit sales tax revenues based on the number of Clinton and Jackson County resident secondary students from ECCSD who participate in the Whole Grade Sharing Agreement times 100 percent of the estimated Clinton and Jackson County sales tax dollars per student. ECCSD will restrict the receipts beginning in November of each school year and conclude the following August with adjustments made the following November based on actual receipts. The District recognized \$65,298 of revenue from this agreement in the current fiscal year.

Northeast Community School District

Notes to Basic Financial Statements

Note 4. Whole Grade Sharing (Continued)

On September 11, 2012, a referendum, authorized by the Mississippi Bend Area Education Agency, to vote on a petition to seek reorganization of the Preston Community School District and East Central Community School District passed. As a result, the two school districts combined to form Easton Valley Community School District beginning with the 2013-2014 year. The District's whole-grade sharing agreement is with the East Central Community School District. On December 14, 2012, the Board of the newly formed Easton Valley Community School District provided written notice to the District of its intent to cancel the agreement effective July 1, 2013 when the East Central Community School District ceased to exist. However, the District believes the Easton Valley Community School District does not have the authority to cancel the agreement until the East Central Community School District is dissolved. As East Central Community School District did not cancel the agreement by December 15, 2012, the District expected the whole-grade sharing agreement to remain until the 2015-2016 school year. The District sought a ruling in Clinton County District Court regarding the agreement. The court ruled the merger vote made the whole grade sharing agreement unenforceable. The District is currently appealing to the Iowa Supreme Court.

Note 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
Business-type activities:				
Capital assets being depreciated:				
Buildings and improvements	\$ 30,981	\$ -	\$ -	\$ 30,981
Furniture and equipment	215,253	25,075	-	240,328
Total capital assets being depreciated	246,234	25,075	-	271,309
Less accumulated depreciation for:				
Buildings and improvements	620	620	-	1,240
Furniture and equipment	148,708	12,729	-	161,437
Total accumulated depreciation	149,328	13,349	-	162,677
Business-type activities capital assets, net	\$ 96,906	\$ 11,726	\$ -	\$ 108,632

Northeast Community School District

Notes to Basic Financial Statements

Note 5. Capital Assets (Continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 202,905	\$ -	\$ -	\$ 202,905
Construction in progress	-	265,035	-	265,035
Total capital assets not being depreciated	202,905	265,035	-	467,940
Capital assets being depreciated:				
Buildings	14,017,198	83,999	-	14,101,197
Improvements other than buildings	1,396,989	93,850	-	1,490,839
Furniture and equipment	2,517,163	40,089	-	2,557,252
Total capital assets being depreciated	17,931,350	217,938	-	18,149,288
Less accumulated depreciation for:				
Buildings	3,288,048	285,548	-	3,573,596
Improvements other than buildings	724,836	66,299	-	791,135
Furniture and equipment	2,276,033	124,116	-	2,400,149
Total accumulated depreciation	6,288,917	475,963	-	6,764,880
Total capital assets being depreciated, net	11,642,433	(258,025)	-	11,384,408
Governmental activities capital assets, net	\$ 11,845,338	\$ 7,010	\$ -	\$ 11,852,348

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

Governmental activities:	
Instruction, Regular	\$ 21,504
Support services:	
Administrative services	800
Operation and maintenance of plant services	13,029
Transportation	86,292
	<u>121,625</u>
Unallocated Depreciation	354,338
Total governmental activities depreciation expense	\$ 475,963
Business-type activities, food service operations	<u>\$ 13,349</u>

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 940,000	\$ 7,500,000	\$ 475,000	\$ 7,965,000	\$ 315,000
General obligation bond premium	-	95,559	-	95,559	-
Qualified school construction bonds	3,302,000	-	-	3,302,000	-
Early retirement	37,965	48,505	37,965	48,505	32,337
Net OPEB liability	119,447	40,609	-	160,056	-
Total	\$ 4,399,412	\$ 7,684,673	\$ 512,965	\$ 11,571,120	\$ 347,337
Business-type activities:					
Net OPEB liability	\$ 1,819	\$ -	\$ -	\$ 1,819	\$ -

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

Early retirement participation is based on the following criteria:

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

During the year ended June 30, 2011, 4 District employees requested early retirement, to be payable during the years ending June 30, 2012 and 2013. The final benefits to be paid to these employees will be in July 2013. During the year ended June 30, 2013, 2 District employees requested early retirement, to be payable during the years ending June 30, 2014 and 2015. The District paid \$37,965 of early retirement benefits approved during the year from the Management Fund.

Northeast Community School District

Notes to Basic Financial Statements

Note 6. Long-Term Liabilities (Continued)

General obligation bonds payable: The District issued \$2,800,000 general obligation bonds on May 1, 2004 to advance refund the District's May 1, 1995 general obligation bonds. Following are the details of the District's General Obligation Bonds Series 2004 as of June 30, 2013:

Year Ending June 30	General Obligation Bonds Series 2004			
	Interest Rates	Principal	Interest	Total
2014	3.30%	\$ 315,000	\$ 21,445	\$ 336,445
2015	3.40%	150,000	11,050	161,050
		<u>\$ 465,000</u>	<u>\$ 32,495</u>	<u>\$ 497,495</u>

The District issued \$7,500,000 general obligation bonds on May 1, 2013 to build, furnish and equip an addition to and to remodel, repair, furnish and equip the existing middle school/high school building including site improvements and to build, improve, remodel, repair, and equip athletic facilities including site improvements. Principal is due annually beginning May 1, 2015. The bonds have interest rates ranging from 1 percent to 3.5 percent due semi-annually on November 1st and May 1st until maturity on May 1, 2033. Following are the details of the District's General Obligation Bonds Series 2013 as of June 30, 2013:

Year Ending June 30	General Obligation Bonds Series 2013			
	Interest Rates	Principal	Interest	Total
2014	1.00%	\$ -	\$ 145,762	\$ 145,762
2015	1.00%	205,000	167,650	372,650
2016	1.00%	355,000	165,600	520,600
2017	1.00%	360,000	162,050	522,050
2018	1.00%	365,000	158,450	523,450
2019-2023	1.0-2.0%	1,880,000	720,150	2,600,150
2024-2028	2.0-3.0%	2,050,000	526,900	2,576,900
2029-2033	3.0-3.5%	2,285,000	230,500	2,515,500
		<u>\$ 7,500,000</u>	<u>\$ 2,277,062</u>	<u>\$ 9,777,062</u>

Qualified school construction bonds: The District issued \$3,302,000 of qualified school construction bonds (QSCB) bearing 3 percent interest on September 30, 2009 for construction of a fine arts building. Annual transfers of \$177,537 from the Capital Projects Fund to the debt sinking fund at Gateway State Bank are made through September 1, 2024, to pay the \$3,302,000 indebtedness due September 1, 2024. As of June 30, 2013, the District has \$532,612 in the debt sinking fund.

Northeast Community School District

Notes to Basic Financial Statements

Note 7. Other Postemployment Benefits (OPEB)

Plan description: The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 60 active and 5 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

Annual OPEB cost and net OPEB obligation: The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. 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	\$	55,152
Interest on net OPEB obligation		2,881
Adjustment to annual required contribution		(12,607)
Annual OPEB cost		<u>45,426</u>
Contributions made		<u>4,817</u>
Increase in net OPEB obligation		40,609
Net OPEB obligation beginning of year		<u>121,266</u>
Net OPEB obligation end of year	\$	<u><u>161,875</u></u>

Northeast Community School District

Notes to Basic Financial Statements

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

The District's transition year is June 30, 2010. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 and the two preceding years are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 45,345	19.2%	\$ 72,572
June 30, 2012	57,694	15.6%	121,266
June 30, 2013	45,426	10.6%	161,875

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 \$ 421,441, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$ 421,441. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,498,800 and the ratio of the UAAL to covered payroll was 12.05 percent. 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. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the notes to financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2013 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5 percent discount rate based on the District's funding policy. The projected annual medical trend rate is 6 percent. Mortality rates are from the 94 Group Annuity Mortality Table projected to 2000 on a 2/3 female, 1/3 male gender basis.

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

Northeast Community School District

Notes to Basic Financial Statements

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78 percent of their annual covered salary and the District is required to contribute 8.67 percent of annual covered payroll for the year ended June 30, 2013. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$380,489, \$330,672, and \$264,972, respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

Note 10. Property Lease

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

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$192,298 for the year ended June 30, 2013 and is recorded in the General Fund.

Northeast Community School District

Notes to Basic Financial Statements

Note 12. Categorical Funding

The District's fund balance reserved for categorical funding as of June 30, 2013 is comprised of the following programs:

Program	Amount
Limited English proficiency weighting	\$ 10,047
Talented and gifted	15,800
Dropout prevention	58,111
Market factor incentives	5,145
Early childhood empowerment program	6,160
Core curriculum professional development	16,671
Teacher development academy	2,996
Teacher quality professional development	26,177
Total	\$ 141,107

Note 13. Commitments and Contingencies

As of June 30, 2013, the District had entered into construction contracts totaling \$400,000. The work to be done relates to a high school gym addition and athletic fields. \$265,035 had been paid on these contracts at year-end.

Note 14. Governmental Accounting Standards Board (GASB) Statements

The District adopted the following statements during the year ended June 30, 2013:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnerships.

GASB Statement No 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. This Statement is intended to improve financial reporting for governmental financial reporting entities by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements.

Northeast Community School District

Notes to Basic Financial Statements

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

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources.

The implementation of the above statements did not have a material impact to the District's financial statements other than GASB Statement No. 63 and No. 65. The adoption of these Statements changed the presentation of the basic financial statements to a statement of net position format.

As of June 30, 2013, GASB had issued several statements not yet required to be implemented by the District. The Statements which might impact the District are as follows:

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

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

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

Northeast Community School District

Notes to Basic Financial Statements

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

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, is effective for the District beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013, is effective for the District beginning with its year ending June 30, 2014. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

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

Note 15. Subsequent Events

On August 21, 2013, the Board of Education approved a resolution authorizing the issuance of \$335,000 general obligation school capital loan notes, series 2013.

Subsequent to year-end, the Board of Education has approved approximately \$5.9 million in several construction contracts for capital improvements .

Northeast Community School District

**Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2013**

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual
Revenues:			
Local sources	\$ 5,908,026	\$ 224,217	\$ 6,132,243
State sources	2,826,800	4,075	2,830,875
Federal sources	292,039	203,028	495,067
Total revenues	9,026,865	431,320	9,458,185
Expenditures/expenses:			
Instruction	5,252,290	-	5,252,290
Support services	2,701,564	22,909	2,724,473
Noninstructional programs	2,500	429,184	431,684
Other expenditures	1,386,164	-	1,386,164
Total expenditures/expenses	9,342,518	452,093	9,794,611
Excess (deficiency) of revenues over (under) expenditures/expenses	(315,653)	(20,773)	(336,426)
Other financing sources (uses):			
Issuance of bonds	7,500,000	-	7,500,000
Premium on bond issuance	95,559	-	95,559
Interfund transfers in	177,537	-	177,537
Interfund transfers out	(177,537)	-	(177,537)
Total other financing sources (uses)	7,595,559	-	7,595,559
Net change in fund balance	7,279,906	(20,773)	7,259,133
Balance, beginning of year	2,143,168	227,502	2,370,670
Balance, end of year	\$ 9,423,074	\$ 206,729	\$ 9,629,803

See Note to Required Supplementary Information.

Budgeted Amounts		Final to Actual
Original	Final	Variance
\$ 5,043,182	\$ 5,043,182	\$ 1,089,061
2,850,761	2,850,761	(19,886)
335,000	335,000	160,067
<u>8,228,943</u>	<u>8,228,943</u>	<u>1,229,242</u>
5,230,000	5,230,000	(22,290)
3,045,000	3,045,000	320,527
427,000	427,000	(4,684)
1,060,961	1,060,961	(325,203)
<u>9,762,961</u>	<u>9,762,961</u>	<u>(31,650)</u>
<u>(1,534,018)</u>	<u>(1,534,018)</u>	<u>1,197,592</u>
-	-	7,500,000
-	-	95,559
200,000	200,000	(22,463)
-	-	(177,537)
<u>200,000</u>	<u>200,000</u>	<u>7,395,559</u>
<u>\$ (1,334,018)</u>	<u>\$ (1,334,018)</u>	<u>\$ 8,593,151</u>

Northeast Community School District

Note to Required Supplementary Information – Budgetary Reporting

Note 1. Budgets and Budgetary Information

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

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

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

During the year ended June 30, 2013, expenditures in the instruction, noninstructional programs, and other expenditures functions exceeded the amounts budgeted.

Northeast Community School District

**Required Supplementary Information
 Schedule of Funding Progress for the Retiree Health Plan
 Year Ended June 30, 2013**

Year Ended June 30:	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	7/1/2009	-	355,874	355,874	0.00%	3,320,000	10.72%
2011	7/1/2009	-	355,874	355,874	0.00%	3,726,000	9.55%
2012	7/1/2009	-	355,874	355,874	0.00%	3,392,000	10.49%
2013	7/1/2012	-	421,441	421,441	0.00%	3,498,800	12.05%

Fiscal Year 2010 was the transition year.

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

Northeast Community School District

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2013**

	Special Revenue		Total
	Management Levy	Student Activity	
Assets			
Cash and pooled investments	\$ 1,236	\$ 64,574	\$ 65,810
Receivables:			
Property tax:			
Current year	7,447	-	7,447
Succeeding year	250,000	-	250,000
Due from other governments	-	70	70
Total assets	\$ 258,683	\$ 64,644	\$ 323,327
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities, accounts payable	\$ -	\$ -	\$ -
Deferred inflows of resources, unavailable revenue:			
Succeeding year property tax	250,000	-	250,000
Fund balances:			
Restricted for:			
Management levy	8,683	-	8,683
Student activities	-	64,644	64,644
Total fund balances	8,683	64,644	73,327
Total liabilities, deferred inflows of resources and fund balances	\$ 258,683	\$ 64,644	\$ 323,327

Northeast Community School District

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended June 30, 2013

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 131,573	\$ -	\$ 131,573
Other	-	227,038	227,038
State sources	57	-	57
Total revenues	131,630	227,038	358,668
Expenditures:			
Current:			
Instruction:			
Regular	59,406	-	59,406
Other	-	221,519	221,519
Support services:			
Administration services	4,676	-	4,676
Operation and maintenance of plant services	45,605	-	45,605
Transportation services	13,136	-	13,136
Noninstructional programs	2,500	-	2,500
Total expenditures	125,323	221,519	346,842
Net change in fund balances	6,307	5,519	11,826
Fund balances, beginning of year	2,376	59,125	61,501
Fund balances, end of year	\$ 8,683	\$ 64,644	\$ 73,327

Northeast Community School District

Schedule of Combining Balance Sheet
 Capital Project Fund - By Account
 June 30, 2013

	Capital Projects Accounts			
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	Total
Assets				
Cash and pooled investments	\$ -	\$ 30,902	\$ 7,270,101	7,301,003
Receivables:			-	-
Property tax:			-	-
Current year	-	4,837	-	4,837
Succeeding year	-	175,330	-	175,330
Due from other governments	70,019	-	-	70,019
Total assets	\$ 70,019	\$ 211,069	\$ 7,270,101	\$ 7,551,189
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Accounts payable	-	-	122,500	122,500
Due to other funds	43,267	-	11,605	54,872
Total liabilities	43,267	-	134,105	177,372
Deferred inflows of resources, unavailable revenue:				
Succeeding year property tax	-	175,330	-	175,330
Fund Balances, restricted for:				
School infrastructure	26,752	-	-	26,752
Physical plant and equipment	-	35,739	-	35,739
Capital improvements	-	-	7,135,996	7,135,996
Total fund balances	26,752	35,739	7,135,996	7,198,487
Total liabilities, deferred inflows of resources and fund balances	\$ 70,019	\$ 211,069	\$ 7,270,101	\$ 7,551,189

Northeast Community School District

Schedule of Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Capital Project Fund - By Account
 Year Ended June 30, 2013

	Capital Projects Accounts			Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Other Capital Projects	
Revenues:				
Local sources:				
Local tax	\$ 378,875	\$ 59,567	\$ -	\$ 438,442
Other	65,298	142	-	65,440
State sources	-	25	-	25
Federal sources	45,762	-	-	45,762
Total revenues	489,935	59,734	-	549,669
Expenditures:				
Current:				
Instruction	41,106	-	-	41,106
Support services:				
Transportation services	12,350	-	-	12,350
Other expenditures:				
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	176,283	176,283
Facilities acquisition	227,508	-	283,280	510,788
Total expenditures	280,964	-	459,563	740,527
Revenues over (under) expenditures	208,971	59,734	(459,563)	(190,858)
Other financing sources (uses):				
Issuance of bonds	-	-	7,500,000	7,500,000
Premium on bond issuance	-	-	95,559	95,559
Transfers out	(177,537)	-	-	(177,537)
Total other financing sources (uses)	(177,537)	-	7,595,559	7,418,022
Net change in fund balance	31,434	59,734	7,135,996	7,227,164
Fund balance (deficit), beginning of year	(4,682)	(23,995)	-	(28,677)
Fund balance, end of year	\$ 26,752	\$ 35,739	\$ 7,135,996	\$ 7,198,487

Northeast Community School District

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year Ended June 30, 2013**

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	\$ 310	\$ 2,076	\$ 2,179	\$ 207
Music	(2,546)	2,548	2,548	(2,546)
Cross Country	(2,839)	6,207	6,207	(2,839)
Golf	(4,510)	3,110	3,110	(4,510)
Golf Coed Fundraising	(95)	611	148	368
HS Cheerleading	(6,611)	405	180	(6,386)
Cheerleading Fundraiser	553	1,125	1,353	325
MS Boys Basketball	(982)	1,100	870	(752)
HS Boys Basketball	5,793	7,822	4,016	9,599
HS Boys Basketball Fundraising	5,112	10,213	12,495	2,830
MS Football	(905)	1,026	1,026	(905)
HS Football	4,108	11,254	9,188	6,174
HS Football Fundraising	8,076	13,730	9,730	12,076
HS Boys Soccer	(8,679)	8,521	7,106	(7,264)
HS Girls Soccer	(3,074)	8,447	8,447	(3,074)
Baseball	(15,219)	13,205	12,942	(14,956)
Baseball Fundraising	313	5,584	2,772	3,125
MS Boys Track	1,848	998	508	2,338
HS Boys Track	(7,661)	9,691	6,895	(4,865)
Boys Track Fundraising	3,278	6,562	9,840	-
Boys Golf	(1,475)	1,056	1,056	(1,475)
Girls Golf	(1,350)	1,049	1,049	(1,350)
MS Wrestling	3,339	762	240	3,861
HS Wrestling	(1,191)	2,884	2,884	(1,191)
Wrestling Fundraising	15,201	7,731	21,375	1,557
MS Girls Basketball	(858)	812	812	(858)
HS Girls Basketball	2,341	3,674	3,088	2,927
HS Girls Basketball Fundraising	1,402	9,786	9,599	1,589
MS Volleyball	1,220	1,012	332	1,900
HS Volleyball	3,214	3,041	4,631	1,624
HS Volleyball Fundraising	4,037	17,863	15,066	6,834
MS Girls Softball	(930)	410	410	(930)
HS Softball	(11,467)	6,226	6,476	(11,717)
HS Softball Fundraising	(154)	9,858	6,541	3,163
MS Girls Track	1,965	1,083	568	2,480
HS Girls Track	(3,485)	10,917	10,917	(3,485)
HS Girls Track Fundraising	2,136	3,543	5,679	-
Activity General Activities	19,423	30,646	20,989	29,080
Activity Interest Account	461	72	-	533
Student Center-Vending Commissions	1,898	377	-	2,275
Post Prom	1,852	3,145	3,328	1,669
Student Leadership	(173)	300	300	(173)

(Continued)

Northeast Community School District

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts (Continued)
Year Ended June 30, 2013**

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Spanish Club	\$ 92	\$ 7,238	\$ 1,746	\$ 5,584
Dance Team	488	-	-	488
S.A.D.D.	1,384	2,363	2,344	1,403
NHS Fundraising	583	-	85	498
FBLA	2,647	14,113	13,992	2,768
FCCLA	1,166	390	236	1,320
FTA	(311)	-	-	(311)
FFA	24,445	63,028	76,691	10,782
MS Student Council	1,459	713	688	1,484
HS Student Council	125	4,423	4,006	542
Class of 2009	8	-	-	8
Class of 2010	(15)	-	-	(15)
Class of 2011	620	-	-	620
Class of 2012	2,779	-	-	2,779
Class of 2013	936	1,085	3,199	(1,178)
Class of 2014	2,904	-	2,079	825
Class of 2015	2,923	-	-	2,923
Class of 2016	2,060	1,085	-	3,145
Class of 2017	-	1,085	1,085	-
Class of 2018	-	-	-	-
Class of 2019	-	-	-	-
6th Grade Store	1,156	587	464	1,279
Yearbook	-	1,425	695	730
Neat Treats Food Production	-	395	-	395
Economics Club	-	6,769	5,452	1,317
Total	\$ 59,125	\$ 335,181	\$ 329,662	\$ 64,644

Northeast Community School District

Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds - Modified Accrual Basis

Last Ten Years

	Years Ended June 30:			
	2013	2012	2011	2010
Revenues:				
Local sources:				
Local tax	\$ 3,208,440	\$ 3,155,437	\$ 3,057,629	\$ 2,743,193
Tuition	2,179,509	2,056,092	1,568,952	1,361,457
Other	520,077	601,890	689,649	376,759
Intermediate sources	-	-	-	-
State sources	2,826,800	2,925,251	3,029,861	2,447,461
Federal sources	292,039	660,694	1,892,138	440,984
Total revenues	\$ 9,026,865	\$ 9,399,364	\$ 10,238,229	\$ 7,369,854
Expenditures:				
Instruction:				
Regular	\$ 3,294,447	\$ 3,209,518	\$ 3,061,683	\$ 2,891,009
Special	1,193,277	865,793	640,696	734,869
Other	764,566	946,346	783,121	861,437
Support services:				
Student services	377,449	357,757	305,332	266,469
Instructional staff services	227,329	182,879	143,256	131,282
Administration services	879,904	877,686	722,058	683,221
Operation and maintenance of plant services	766,431	740,695	621,402	590,053
Transportation services	450,451	463,838	538,438	386,027
Noninstructional programs	2,500	519	2,145	2,023
Other expenditures:				
Facilities acquisition	510,788	1,839,002	4,457,977	426,884
Long-term debt:				
Principal	475,000	290,000	280,000	354,948
Interest and fiscal charges	208,078	40,685	49,035	60,833
AEA flowthrough	192,298	192,652	216,762	214,498
Total expenditures	\$ 9,342,518	\$ 10,007,370	\$ 11,821,905	\$ 7,603,553

							Years Ended June 30:					
2009		2008		2007		2006		2005		2004		
\$	2,649,113	\$	2,660,377	\$	2,692,210	\$	2,547,106	\$	2,580,192	\$	2,686,990	
	1,249,924		1,047,153		860,319		713,013		522,446		549,462	
	328,051		345,411		317,999		328,816		379,225		267,975	
	-		29,470		36,864		38,159		36,975		31,654	
	2,812,220		2,727,325		2,777,706		2,772,517		2,654,881		2,551,781	
	198,624		99,773		115,911		106,236		150,752		217,338	
\$	7,237,932	\$	6,909,509	\$	6,801,009	\$	6,505,847	\$	6,324,471	\$	6,305,200	
<hr/>												
\$	2,866,720	\$	2,655,381	\$	2,512,909	\$	2,354,686	\$	2,310,146	\$	2,512,182	
	742,209		677,998		704,686		612,022		615,999		828,275	
	779,628		748,162		680,686		690,736		651,797		545,153	
	243,906		228,253		227,253		209,714		198,822		167,693	
	137,313		121,472		108,100		138,799		147,828		91,353	
	676,707		629,884		590,011		608,683		607,246		565,233	
	612,086		561,162		573,790		555,690		464,450		441,993	
	388,819		679,148		502,626		446,526		420,152		410,255	
	1,665		5,469		2,901		2,663		1,386		774	
	350,732		137,763		157,320		134,943		284,933		949,633	
	593,791		380,000		370,000		360,000		2,940,000		208,000	
	73,026		77,462		85,858		93,423		263,183		204,897	
	199,657		195,507		192,793		186,543		185,900		189,565	
\$	7,666,259	\$	7,097,661	\$	6,708,933	\$	6,394,428	\$	9,091,842	\$	7,115,006	

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

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northeast Community School District's internal control over financial reporting (internal control) to determine the audit procedures that are 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 Northeast Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northeast Community School District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be 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 and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2013-001 through 2013-004 to be material weaknesses.

Compliance and Other Matters

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

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

District's Response to Findings

Northeast Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Northeast 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bohnsack & Frommelt LLP

Overland Park, Kansas

March 19, 2014

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2013**

Part I: Findings Related to the Basic Financial Statements

Instances of noncompliance:

No matters were reported.

Material weaknesses:

2013-001

Finding: A properly designed system of internal control over financial reporting requires entities to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America. The District did not properly identify year-end accrual adjustments required to be reported in accordance with the applicable standards and principles.

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

- Capital assets and accumulated depreciation
- Categorical funding restricted fund balance accounts by source
- Accounts receivable and deferred inflows of resources
- Accounts payable
- Long-term debt

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

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

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

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

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

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2013**

2013-002

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

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

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

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

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

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

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

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

Conclusion: Response accepted.

Northeast Community School District

Schedule of Findings and Responses Year Ended June 30, 2013

2013-003

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

Condition: The Business Manager has access to collections received at the administrative offices and posts receipts and reconciles accounts. For other receipts, the building secretaries are collecting cash, preparing the deposit slip and taking the deposit to the bank. There is no independent reconciliation of the pre-numbered receipt books to the bank deposits.

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

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

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

Recommendation: We recommend the District consider the following to further improve controls:

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

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

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2013**

2013-004

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

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

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

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

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

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

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

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

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2013**

Part II: Other Findings Related to Statutory Reporting

II-A-13

Certified Budget:

Finding: Expenditures for the year ended June 30, 2013, exceeded the amounts budgeted for instruction, noninstructional programs, and other expenditures.

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

Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

II-B-13

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

II-C-13

Travel Expense: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-13

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

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: No transactions requiring Board approval which had not been approved by the Board were noted. However, we noted the following:

Finding: The minutes of one Board of Education meeting selected from a sample of four were not published timely.

Recommendation: The District should publish the minutes within two weeks of the Board meeting as required by Chapter 279.35 of the Code of Iowa.

Response: The District will publish Board meeting minutes within two weeks as required.

Conclusion: Response accepted.

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2013**

II-G-13

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

II-H-13

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

II-I-13

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

II-J-13

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

II-K-13

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

II-L-13

Statewide Sales and Services Tax: No instances of noncompliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance		\$	(4,682)
Statewide sales and services tax revenue			378,875
Grants and contributions			45,762
Interest and other local revenues			65,298
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	268,614	
Equipment		12,350	280,964
Transfers out			177,537
Ending balance		\$	<u>26,752</u>

Northeast Community School District

**Schedule of Findings and Responses
Year Ended June 30, 2013**

II-L-13 (continued)

For the year ended June 30, 2013, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.01614	\$ 155,078
Physical Plant and Equipment Levy (PPEL)	1.34000	223,797

II-M-13

Financial Condition

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

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

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

Conclusion: Response accepted.



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

In connection with our audit of the financial statements of the Northeast Community School District as of and for the year ended June 30, 2013, we identified deficiencies in internal control over financial reporting (control deficiencies).

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

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

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

- 1) The Superintendent's travel expenses are not required by District policy to be pre-approved or to be formally reviewed by the Board prior to payment. There is an inherent limitation to internal controls when a direct report approves expenses of a supervisor. In addition, expenses for travel should be approved prior to being incurred. We recommend the Board President sign all travel expense forms of the Superintendent and that the signature is obtained prior to the expense being incurred.
- 2) The District has an account at The Bancorp Bank that was used as an impress account by the previous servicer of the flex medical spending program. We recommend that dormant accounts be closed to prevent unauthorized use.

- 3) We noted the following over cash disbursements:
- An official was paid from a schedule rather than from the Official Pay Voucher signed by the Athletic Director.
 - Accounts payable as of June 30, 2013 were not properly identified and recorded in the trial balances of each fund.
 - The District maintains a check log to monitor check sequence. Both the Business Manager and Administrative Assistant should initial the log every time checks are printed.
 - A new hire form could not be located for an employee selected for payroll testing.
 - There were two instances in which the total hours from an employee timesheet did not agree to the total hours on the paycheck.
- 4) We noted the following over cash receipts:
- A handwritten deposit slip for book fair purchases did not match the bank deposit slip by \$20.
 - There was a bank reconciliation difference that was not properly identified prior to the audit.
 - We suggest the District track individual receipts for skating parties when the parent is paying the school and the District is paying the skating rink.
- 5) Capital asset additions were not properly identified and recorded in the District's financial records during the year. In addition, the District's policy is to depreciate capital assets based on the actual month acquired; however, full year depreciation is being taken in practice. We recommend the District identify capital asset additions throughout the year and record them within the capital asset module and that District policy is complied with or changed to align with current practices.

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

Bohnsack & Frommelt LLP

Overland Park, Kansas
March 19, 2014