

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

June 30, 2013

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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above presents fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Kossuth Community School District as of June 30,

2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 38 through 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U. S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Kossuth Community School District's basic financial statements. We previously audited, in accordance with the standards referred in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 2, 2014 on our consideration of North Kossuth Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering North Kossuth Community School District's internal control over financial reporting and compliance.

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

April 2, 2014

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,352,904 in fiscal year 2012 to \$4,072,365 in fiscal year 2013, while General Fund expenditures increased from \$4,095,437 in fiscal year 2012 to \$4,293,402 in fiscal year 2013. This District's General Fund balance decreased from \$1,016,394 at the end of fiscal year 2012 to \$799,720 at the end of fiscal year 2013, a 21% decrease.
- The fiscal year 2013 General Fund revenue decrease was attributable to reductions in student enrollment, property taxes and federal grant revenue. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salaries and benefits were more than the District's increase in General Fund revenue for fiscal year 2013.

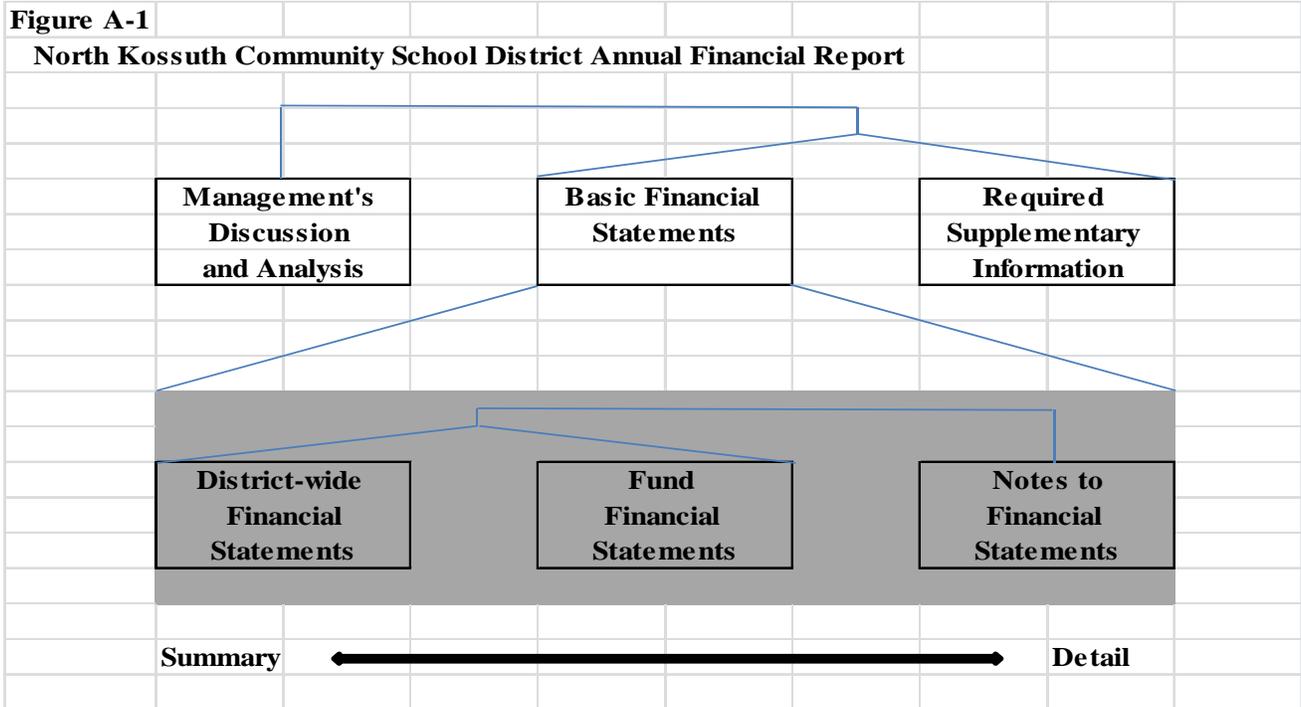
USING THIS ANNUAL REPORT

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 North Kossuth Community School District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which North Kossuth Community School District acts solely as an agent or custodian for the benefit of those outside of the District.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the nonmajor funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

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	Fund Statements		
	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	The activities of the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	-Statement of net position	- Balance sheet	- Statement of net position	- Statement of fiduciary net position
	-Statement of activities	- Statement of revenues, expenditures and changes in fund balances	- Statement of revenues, expenses and changes in fund net position	- Statement of changes in fiduciary net position
			- Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets although they can
Type of inflow / outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is paid	All additions and deductions during the year, regardless of when cash is received or paid

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the District's Financial Activities

Government-wide Financial Statements

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

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

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

Fund Financial Statements

The fund financial statements provide 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 or 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 it is properly using certain revenues, such as federal grants.

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.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Fund Financial Statements

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's Enterprise Fund is 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 Fund Net Position and a Statement of Cash Flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Position (in thousands of dollars)						Percentage Change 2012-2013
	Governmental Activities		Business-type Activities		Total School District		
	2013	2012	2013	2012	2013	2012	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,092	3,972	24	16	4,116	3,988	3%
Capital assets	3,121	3,240	40	50	3,161	3,290	-4%
Total assets	7,213	7,212	64	66	7,277	7,278	0%
Long-term liabilities	207	246	6	3	213	249	-14%
Other liabilities	2,657	2,323	8	2	2,665	2,325	15%
Total liabilities	2,864	2,569	14	5	2,878	2,574	12%
Net Assets:							
Net Investment in capital assets	3,121	3,240	40	50	3,161	3,290	-4%
Restricted	429	362	-	-	429	362	19%
Unrestricted	799	1,041	10	11	809	1,052	-23%
TOTAL NET POSITION	4,349	4,643	50	61	4,399	4,704	-6%

The District's total net position decreased 6%, or approximately \$305,000, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment).

MANAGEMENT'S DISCUSSION AND ANALYSIS

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased approximately \$67,000, or 19%, over the prior year. The increase was primarily a result of decreased expenditures in the Capital Projects Fund.

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 approximately \$243,000, or 23%. This reduction in unrestricted net position was primarily a result of the District's net OPEB liability recorded in the current year.

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

	Change in Net Position						Percentage Change 2012-2013
	Governmental Activities		Business-type Activities		Total School District		
	2013 \$	2012 \$	2013 \$	2012 \$	2013 \$	2012 \$	
Revenues							
Program Revenues:							
Charges for services	944	583	68	60	1,012	643	57%
Operating grants, contributions and restricted interest	569	705	93	67	662	772	-14%
Capital grants, contributions and restricted interest	-	-	-	-	-	-	-
General Revenues:							
Property taxes	2,023	2,620	-	-	2,023	2,620	-23%
Local option sales tax	247	254	-	-	247	254	-3%
Unrestricted state grants	747	817	-	-	747	817	-9%
Unrestricted investment earnings	15	2	-	-	15	2	650%
Other revenue	12	29	-	-	12	29	-59%
Total Revenues	4,557	5,010	161	127	4,718	5,137	-8%
Expenses:							
Instruction	3,293	3,336	-	-	3,293	3,336	-1%
Support services	1,201	1,294	-	-	1,201	1,294	-7%
Non-instructional programs	-	-	172	139	172	139	24%
Other expenditures	352	370	-	-	352	370	-5%
Total expenses	4,846	5,000	172	139	5,018	5,139	-1%
Excess (deficiency) of revenues over (under) expenditures	(289)	10	(11)	(12)	(300)	(2)	-14,900%
Other financing sources (uses)							
Transfers/loss disposal assets	(5)	(14)	-	14	(5)	-	0%
Increase (decrease) in net position	(294)	(4)	(11)	2	(305)	(2)	-15,150%
Net position beginning of year	4,643	4,647	61	59	4,704	4,706	0%
Net position end of year	4,349	4,643	50	61	4,399	4,704	-6%

MANAGEMENT’S DISCUSSION AND ANALYSIS

In fiscal year 2013, property tax and unrestricted state grants accounted for 59% of governmental activities revenue while charges for service and operating grants, contributions and restricted interest accounted for 99.9% of business type activities revenue. The District’s total revenues were approximately \$4.7 million, of which approximately \$4.6 million was for governmental activities and less than \$1 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8% decrease in revenues and a 1% decrease in expenses. Student enrollment declined significantly resulting in decreased revenues to cover the District’s expenses incurred.

Governmental Activities

Revenues for governmental activities were \$4,556,707 and expenses were \$4,845,593 for the year ended June 30, 2013. In a difficult budget year, the District was unable to balance the budget by trimming expenses to match available revenues.

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

Figure A-5 **Total and Net Cost of Governmental Activities**
(in thousands of dollars)

	Total Cost of Services 2013	Total Cost of Services 2012	Net Cost Of Services 2013	Net Cost Of Services 2012
	\$	\$	\$	\$
Instruction	3,293	3,336	1,931	2,187
Support Services	1,201	1,294	1,183	1,287
Other Expenses	352	370	219	239
TOTAL	4,846	5,000	3,333	3,713

For the year ended June 30, 2013:

- The cost financed by users of the District’s programs was \$943,796.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$568,752.
- The net cost of governmental activities was financed with \$2,269,891 in property and other taxes and \$747,409 in unrestricted state grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Type Activities

Revenues for business type activities during the year ended June 30, 2013 were \$161,005, representing a 26.7% increase over the prior year, while expenses totaled \$172,089, a 23.7% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service and state reimbursement and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,258,774, below last year's ending fund balances of \$1,334,192. However, the primary reason for the decrease in combined fund balances at the end of fiscal year 2013 is due to approximately \$403,908 increase in accounts payable during fiscal year 2013.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Reductions during the year in enrollment, property taxes and federal grants resulted in a decrease in revenues. Although, the District decreased expenditures during the current year, revenues were not enough to match total expenditures, requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$1,016,394 to \$799,720 due, in part, to the negotiated salaries and benefits and existing expenditure commitments of the District.
- The Capital Projects Fund balance increased due to local taxes of \$472,658 received during fiscal year 2013. The District ended fiscal year 2012 with a surplus of \$157,760 as a result of preliminary project cost. Fiscal year 2013 ended with a balance of \$325,119.

Proprietary Fund Highlights

School Nutrition Fund net position decreased from \$61,540 at June 30, 2012 to \$50,456 at June 30, 2013, representing a decrease of approximately 18.0%. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

BUDGETARY HIGHLIGHTS

The District's total revenues were \$560,938 more than total budgeted revenues, a variance of 13%.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instructional and non-instructional functional areas due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The District also appears to have exceeded its general fund spending authority.

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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested approximately \$3,161,257 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, transportation equipment and intangible assets. (See Figure A-6) This represents a net decrease of 3.9% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation/amortization expense for the year was \$222,115.

The original cost of the District's capital assets was approximately \$6,191,992. Governmental funds account for approximately \$6,047,941, with the remainder of approximately \$144,051 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment totaled \$2,024,460 at June 30, 2013, compared to \$1,977,779 reported at June 30, 2012. This increase resulted from classroom improvements and technology purchases.

Figure A-6							
Capital Assets, net of Depreciation/Amortization							
(Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2013	2012	June 30, 2013	2012	June 30, 2013	2012	2012-2013
Land	31	31	-	-	31	31	0.0%
Buildings	2,108	2,182	-	-	2,108	2,182	-3.4%
Improvements other than buildings	523	530	-	-	523	530	-1.3%
Furniture and equipment	459	497	40	50	499	547	-8.8%
Total	3,121	3,240	40	50	3,161	3,290	-3.9%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- The North Kossuth Community School has advised the District its total taxable valuation will increase 6% for property tax collected in fiscal year 2014 due to the recent completion of property revaluation assessments.
- The District's financing is highly dependent upon student enrollment. The District's October 2013 enrollment increased by 8.5 students. This increase will positively affect the District funding for fiscal year 2014.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- The District will continue a whole grade sharing arrangement with Armstrong Ringsted and Sentral Community School Districts. Consolidated bus routes, shared staff and coaches, and shared expenses continue to affect the financial health of the district. North Kossuth employment needs will continue to be assessed.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Position

June 30, 2013

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash, cash equivalents and pooled investments	1,505,743	13,534	1,519,277
Receivables:			
Property tax:			
Delinquent	31,587	-	31,587
Succeeding year	1,706,424	-	1,706,424
Accounts	4,526	2,100	6,626
Prepaid expense	329	-	329
Due from other governments	843,840	4,214	848,054
Inventories	-	3,500	3,500
Capital assets, net of accumulated depreciation	3,120,903	40,354	3,161,257
Total assets	7,213,352	63,702	7,277,054
Liabilities			
Accounts payable	871,719	3,207	874,926
Salaries and benefits payable	78,911	2,063	80,974
Deferred revenue:			
Succeeding year property tax	1,706,424	-	1,706,424
Other	-	1,832	1,832
Long-term liabilities:			
Portion due within one year:			
Termination benefits	29,058	-	29,058
Portion due after one year:			
Termination benefits	75,924	-	75,924
Net OPEB liability	102,069	6,144	108,213
Total liabilities	2,864,105	13,246	2,877,351
Net position			
Net investment in capital assets	3,120,903	40,354	3,161,257
Restricted for:			
Categorical funding	75,575	-	75,575
Management levy	16,157	-	16,157
School infrastructure	266,748	-	266,748
Physical plant and equipment levy	58,371	-	58,371
Student activities	12,796	-	12,796
Unrestricted	798,697	10,102	808,799
Total net position	4,349,247	50,456	4,399,703

See notes to financial statements.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,774,915	752,253	285,429	-
Special	1,076,842	156,987	83,450	-
Other	440,784	25,495	57,451	-
	<u>3,292,541</u>	<u>934,735</u>	<u>426,330</u>	<u>-</u>
Support services:				
Student	39,548	-	-	-
Instructional staff	65,847	-	-	-
Administration	489,268	9,061	-	-
Operation and maintenance of plant	275,377	-	-	-
Transportation	331,204	-	9,402	-
	<u>1,201,244</u>	<u>9,061</u>	<u>9,402</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	112,068	-	-	-
AEA flowthrough	133,020	-	133,020	-
Depreciation/amortization (unallocated)*	106,720	-	-	-
	<u>351,808</u>	<u>-</u>	<u>133,020</u>	<u>-</u>
Total governmental activities	4,845,593	943,796	568,752	-
Business type activities:				
Non-instructional programs:				
Food service operations	172,089	67,554	93,441	-
Total	<u>5,017,682</u>	<u>1,011,350</u>	<u>662,193</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Loss disposal assets				
Total general revenues and loss disposal assets				

Change in net position

Net position beginning of year

Net position end of year

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

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$	\$	\$
(737,233)	-	(737,233)
(836,405)	-	(836,405)
<u>(357,838)</u>	<u>-</u>	<u>(357,838)</u>
<u>(1,931,476)</u>	<u>-</u>	<u>(1,931,476)</u>
(39,548)	-	(39,548)
(65,847)	-	(65,847)
(480,207)	-	(480,207)
(275,377)	-	(275,377)
<u>(321,802)</u>	<u>-</u>	<u>(321,802)</u>
<u>(1,182,781)</u>	<u>-</u>	<u>(1,182,781)</u>
(112,068)	-	(112,068)
-	-	-
<u>(106,720)</u>	<u>-</u>	<u>(106,720)</u>
<u>(218,788)</u>	<u>-</u>	<u>(218,788)</u>
(3,333,045)	-	(3,333,045)
-	(11,094)	(11,094)
<u>(3,333,045)</u>	<u>(11,094)</u>	<u>(3,344,139)</u>
1,745,188	-	1,745,188
66,745	-	66,745
211,338	-	211,338
246,620	-	246,620
747,409	-	747,409
14,921	10	14,931
<u>11,938</u>	<u>-</u>	<u>11,938</u>
3,044,159	10	3,044,169
<u>(5,174)</u>	<u>-</u>	<u>(5,174)</u>
<u>3,038,985</u>	<u>10</u>	<u>3,038,995</u>
(294,060)	(11,084)	(305,144)
<u>4,643,307</u>	<u>61,540</u>	<u>4,704,847</u>
<u>4,349,247</u>	<u>50,456</u>	<u>4,399,703</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2013

	General	Capital	Nonmajor	Total
	\$	Projects	Governmental	\$
	\$	\$	\$	\$
Assets				
Cash, cash equivalents and pooled investments	1,053,902	287,869	138,122	1,479,893
Receivables:				
Property tax:				
Delinquent	30,273	-	1,314	31,587
Succeeding year	1,562,716	68,707	75,001	1,706,424
Accounts	2,991	-	1,535	4,526
Prepaid expenses	329	-	-	329
Due from other governments	802,800	41,040	-	843,840
Total assets	3,453,011	397,616	215,972	4,066,599
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	860,893	3,790	7,036	871,719
Salaries and benefits payable	78,911	-	-	78,911
Deferred revenue:				
Succeeding year property tax	1,562,716	68,707	75,001	1,706,424
Income surtax	150,771	-	-	150,771
Total liabilities	2,653,291	72,497	82,037	2,807,825
Fund balances:				
Restricted for:				
Categorical funding	75,575	-	-	75,575
Management levy purposes	-	-	121,139	121,139
Student activities	-	-	12,796	12,796
School infrastructure	-	266,748	-	266,748
Physical plant and equipment	-	58,371	-	58,371
Unassigned	724,145	-	-	724,145
Total fund balances	799,720	325,119	133,935	1,258,774
Total liabilities and fund balances	3,453,011	397,616	215,972	4,066,599

NORTH KOSSUTH 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 (Exhibit C)	1,258,774
<i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,120,903
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	150,771
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and employee flexible benefit plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	25,850
Long-term liabilities, termination benefits and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(207,051)</u>
Net position of governmental activities (Exhibit A)	<u><u>4,349,247</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2013

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,853,919	472,658	72,702	2,399,279
Tuition	838,943	12,827	-	851,770
Other	63,342	-	50,663	114,005
State sources	1,142,946	-	-	1,142,946
Federal sources	173,215	-	-	173,215
Total revenues	<u>4,072,365</u>	<u>485,485</u>	<u>123,365</u>	<u>4,681,215</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,778,530	-	39,012	1,817,542
Special	1,064,120	-	-	1,064,120
Other	374,734	-	63,223	437,957
	<u>3,217,384</u>	<u>-</u>	<u>102,235</u>	<u>3,319,619</u>
Support services:				
Student	39,782	-	-	39,782
Instructional staff	33,527	30,906	-	64,433
Administration	439,800	12,730	18,962	471,492
Operation and maintenance of plant	227,036	13,591	22,481	263,108
Transportation	202,853	123,904	5,790	332,547
	<u>942,998</u>	<u>181,131</u>	<u>47,233</u>	<u>1,171,362</u>
Other expenditures:				
Facilities acquisition	-	137,512	-	137,512
AEA flowthrough	133,020	-	-	133,020
	<u>133,020</u>	<u>137,512</u>	<u>-</u>	<u>270,532</u>
Total expenditures	<u>4,293,402</u>	<u>318,643</u>	<u>149,468</u>	<u>4,761,513</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(221,037)</u>	<u>166,842</u>	<u>(26,103)</u>	<u>(80,298)</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	-	517	-	517
Sales of materials and equipment	4,363	-	-	4,363
Total other financing sources (uses)	<u>4,363</u>	<u>517</u>	<u>-</u>	<u>4,880</u>
Change in fund balances	(216,674)	167,359	(26,103)	(75,418)
Fund balances beginning of year	<u>1,016,394</u>	<u>157,760</u>	<u>160,038</u>	<u>1,334,192</u>
Fund balances end of year	<u><u>799,720</u></u>	<u><u>325,119</u></u>	<u><u>133,935</u></u>	<u><u>1,258,774</u></u>

See notes to financial statements.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2013

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(75,418)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay adjustments in the current year are as follows:		
Basis in capital assets sold	(5,174)	
Expenditures for capital assets	98,150	
Depreciation expense	<u>(212,240)</u>	(119,264)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		(129,388)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	91,861	
Other postemployment benefits	<u>(52,300)</u>	39,561
An internal service fund is used by the District's management to charge the costs of the health insurance deductible reimbursement program and employee flexible benefit plan to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>(9,551)</u>
Changes in net position of governmental activities (Exhibit B)		<u><u>(294,060)</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Position
Proprietary Funds

June 30, 2013

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
Assets		
Current assets:		
Cash and cash equivalents	13,534	25,850
Accounts receivable	2,100	-
Due from other governments	4,214	-
Inventories	3,500	-
Total current assets	<u>23,348</u>	<u>25,850</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation	<u>40,354</u>	<u>-</u>
Total assets	<u>63,702</u>	<u>25,850</u>
Liabilities		
Current liabilities:		
Accounts payable	3,207	-
Salaries and benefits payable	2,063	-
Deferred revenue	1,832	-
Total current liabilities	<u>7,102</u>	<u>-</u>
Noncurrent liabilities:		
Net OPEB liability	<u>6,144</u>	<u>-</u>
Total liabilities	<u>13,246</u>	<u>-</u>
Net position		
Invested in capital assets	40,354	-
Unrestricted	<u>10,102</u>	<u>25,850</u>
Total net position	<u><u>50,456</u></u>	<u><u>25,850</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2013

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Operating revenues:		
Local sources:		
Charges for service	<u>67,554</u>	<u>30,683</u>
Operating expenses:		
Non-instructional programs:		
Salaries	47,225	-
Benefits	32,686	28,667
Purchased services	1,579	11,580
Supplies	80,724	-
Depreciation	9,875	-
Total operating expenses	<u>172,089</u>	<u>40,247</u>
Operating income (loss)	<u>(104,535)</u>	<u>(9,564)</u>
Non-operating revenues:		
State sources	5,598	-
Federal sources	87,843	-
Interest income	10	13
Total non-operating revenues	<u>93,451</u>	<u>13</u>
Change in net position	(11,084)	(9,551)
Net position beginning of year	<u>61,540</u>	<u>35,401</u>
Net position end of year	<u><u>50,456</u></u>	<u><u>25,850</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2013

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	65,708	-
Cash from services provided to other funds	-	30,701
Cash payments to employees for services	(75,401)	(40,247)
Cash payments to suppliers for goods or services	(71,790)	-
Net cash used by operating activities	<u>(81,483)</u>	<u>(9,546)</u>
Cash flows from non-capital financing activities:		
State grants received	5,598	-
Federal grants received	75,186	-
Net cash provided by non-capital financing activities	<u>80,784</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	10	13
Net increase (decrease) in cash and cash equivalents	(689)	(9,533)
Cash and cash equivalents at beginning of year	<u>14,223</u>	<u>35,383</u>
Cash and cash equivalents at end of year	<u>13,534</u>	<u>25,850</u>
Reconciliation of operating income (loss) to net cash used by operating activities:		
Operating income (loss)	(104,535)	(9,564)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Commodities used	8,443	-
Depreciation	9,875	-
Decrease (increase) in inventories	(1,137)	-
Decrease (increase) in accounts receivable	(2,078)	18
(Decrease) increase in accounts payable	3,207	-
(Decrease) increase in salaries and benefits payable	1,683	-
(Decrease) increase in deferred revenue	232	-
(Decrease) increase in other postemployment benefits	2,827	-
Net cash used by operating activities	<u>(81,483)</u>	<u>(9,546)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2013, the District received \$8,443 of federal commodities.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Position
Fiduciary Funds

June 30, 2013

	Private Purpose Trust Scholarship \$	Agency \$
Assets		
Cash, cash equivalents and pooled investments	1,668	1,441
Liabilities		
Other payables	-	1,441
Net Position		
Reserved for scholarships	<u>1,668</u>	<u>-</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Funds

Year ended June 30, 2013

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

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2013

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

The Statement of Net Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012, through June 30, 2013, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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

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

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

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

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

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

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

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures exceeded the amounts budgeted in the instructional and non-instructional functions.

2. **Cash, Cash Equivalents and Pooled Investments**

The District's deposits in banks at 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.

At June 30, 2013, the District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$1,005 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

3. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	30,725	-	-	30,725
Capital assets being depreciated:				
Buildings	3,339,398	-	-	3,339,398
Improvements other than buildings	627,914	25,444	-	653,358
Furniture and equipment	1,977,779	72,706	26,025	2,024,460
Total capital assets being deprec.	<u>5,945,091</u>	<u>98,150</u>	<u>26,025</u>	<u>6,017,216</u>
Less accumulated depreciation for:				
Buildings	1,157,032	74,537	-	1,231,569
Improvements other than buildings	98,181	32,183	-	130,364
Furniture and equipment	1,480,436	105,520	20,851	1,565,105
Total accumulated depreciation	<u>2,735,649</u>	<u>212,240</u>	<u>20,851</u>	<u>2,927,038</u>
Total capital assets being depreciated, net	<u>3,209,442</u>	<u>(114,090)</u>	<u>5,174</u>	<u>3,090,178</u>
Governmental activities capital assets, net	<u>3,240,167</u>	<u>(114,090)</u>	<u>5,174</u>	<u>3,120,903</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	144,051	-	-	144,051
Less accumulated depreciation	93,822	9,875	-	103,697
Business type activities capital assets, net	<u>50,229</u>	<u>(9,875)</u>	<u>-</u>	<u>40,354</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	51,031
Support services:	
Student support	20,339
Administration services	6,465
Operation and maintenance of plant services	9,442
Transportation	18,243
	<hr/>
Unallocated depreciation	106,720
	<hr/>
Total depreciation expense – governmental activities	212,240
	<hr/>
Business type activities:	
Food services	9,875
	<hr/> <hr/>

4. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
Termination benefits (restated beginning balance)	146,228	-	41,246	104,982	29,058
Net OPEB liability	49,769	52,300	-	102,069	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	195,997	52,300	41,246-	207,051	29,058-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Business type activities:					
Net OPEB liability	3,317	2,827	-	6,144	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Termination Benefits

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

At June 30, 2013, the District has obligations to five participants with a total liability of \$104,982. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$41,246. The beginning balance was restated to correct prior error.

5. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$160,407, \$154,661 and \$136,257 respectively, equal to the required contributions for each year.

6. 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 41 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Mercer. 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	97,060
Interest on net OPEB obligation	1,327
Adjustment to annual required contribution	<u>5,291</u>
Annual OPEB cost	93,096
Contributions made	<u>37,969</u>
Increase in net OPEB obligation	55,127
Net OPEB obligation beginning of year	<u>53,086</u>
 Net OPEB obligation end of year	 <u><u>108,213</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$37,969 to the medical plan. Plan members eligible for benefits contributed \$2,046.

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

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
2010	32,285	43.7%	18,165
2011	31,864	49.1%	34,377
2012	33,982	44.9%	53,086
2013	93,096	40.8%	108,213

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 \$615,361, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$615,361. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,360,000 and the ratio of the UAAL to covered payroll was 45.2%. 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 of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

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

The UAAL is being amortized over 30 years.

7. Risk Management

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

8. 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 \$133,020 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

9. Lease Commitment

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

<u>Year Ended June 30,</u>	<u>Copier Lease Payments</u>
	\$
2014	7,176
2015	7,176
2016	7,176
Total	<u>15,548</u>

The District has also approved the lease of 2 new buses for 3 years in the amount of \$25,848 per year beginning July 2013.

10. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
	\$
Teacher salary supplement	19,133
Core curriculum	8,674
Returning dropout and dropout prevention program	<u>47,768</u>
	<u>75,575</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2013

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,365,054	67,564	3,432,618	2,684,798	2,684,798	747,820
State sources	1,142,946	5,598	1,148,544	1,386,484	1,386,484	(237,940)
Federal sources	173,215	87,843	261,058	210,000	210,000	51,058
Total revenues	<u>4,681,215</u>	<u>161,005</u>	<u>4,842,220</u>	<u>4,281,282</u>	<u>4,281,282</u>	<u>560,938</u>
Expenditures/Expenses:						
Instruction	3,319,619	-	3,319,619	2,765,000	2,765,000	(554,619)
Support services	1,171,362	-	1,171,362	1,417,500	1,417,500	246,138
Non-instructional programs	-	172,089	172,089	170,000	170,000	(2,089)
Other expenditures	270,532	-	270,532	292,500	292,500	21,968
Total expenditures/expenses	<u>4,761,513</u>	<u>172,089</u>	<u>4,933,602</u>	<u>4,645,000</u>	<u>4,645,000</u>	<u>(288,602)</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(80,298)	(11,084)	(91,382)	(363,718)	(363,718)	272,336
Other financing sources (uses) net	<u>4,880</u>	<u>-</u>	<u>4,880</u>	<u>-</u>	<u>-</u>	<u>4,880</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(75,418)	(11,084)	(86,502)	(363,718)	(363,718)	277,216
Balance beginning of year	<u>1,334,192</u>	<u>61,540</u>	<u>1,395,732</u>	<u>1,212,069</u>	<u>1,212,069</u>	<u>183,663</u>
Balance end of year	<u><u>1,258,774</u></u>	<u><u>50,456</u></u>	<u><u>1,309,230</u></u>	<u><u>848,351</u></u>	<u><u>848,351</u></u>	<u><u>460,879</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2013

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

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

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

During the year ended June 30, 2013, expenditures in the instructional and noninstructional functions exceeded the amount budgeted. The District also appears to have exceeded its general fund spending authority.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	282,722	282,722	0.0%	1,760,000	16.1%
2011	July 1, 2009	-	263,949	263,949	0.0%	1,685,000	15.7%
2012	July 1, 2009	-	240,526	240,526	0.0%	1,696,000	14.2%
2013	July 1, 2012	-	615,361	615,361	0.0%	1,360,000	45.2%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2013

	Special Revenue Funds		Total
	Management Levy	Student Activity	
Assets	\$	\$	\$
Cash, cash equivalents and pooled investments	119,825	18,297	138,122
Receivables:			
Property tax:			
Delinquent	1,314	-	1,314
Succeeding year	75,001	-	75,001
Accounts	-	1,535	1,535
Total assets	<u>196,140</u>	<u>19,832</u>	<u>215,972</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	-	7,036	7,036
Deferred revenue:			
Succeeding year property tax	75,001	-	75,001
Total liabilities	<u>75,001</u>	<u>7,036</u>	<u>82,037</u>
Fund balances:			
Restricted for:			
Management levy	121,139	-	121,139
Student activities	-	12,796	12,796
Total fund balances	<u>121,139</u>	<u>12,796</u>	<u>133,935</u>
Total liabilities and fund balances	<u>196,140</u>	<u>19,832</u>	<u>215,972</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2013

	Special Revenue Funds		Total
	Management Levy	Student Activity	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	72,702	-	72,702
Other	2,798	47,865	50,663
Total revenues	<u>75,500</u>	<u>47,865</u>	<u>123,365</u>
Expenditures:			
Current:			
Instruction:			
Regular	39,012	-	39,012
Other	-	63,223	63,223
Support services:			
Administration	18,962	-	18,962
Operation and maintenance of plant	22,481	-	22,481
Transportation	5,790	-	5,790
Total expenditures	<u>86,245</u>	<u>63,223</u>	<u>149,468</u>
Change in fund balances	(10,745)	(15,358)	(26,103)
Fund balances beginning of year	<u>131,884</u>	<u>28,154</u>	<u>160,038</u>
Fund balances end of year	<u><u>121,139</u></u>	<u><u>12,796</u></u>	<u><u>133,935</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Project Accounts

June 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets	\$	\$	\$
Cash, cash equivalents and pooled investments	225,708	62,161	287,869
Receivables:			
Property tax:			
Succeeding year	-	68,707	68,707
Due from other governments	41,040	-	41,040
Total assets	<u>266,748</u>	<u>130,868</u>	<u>397,616</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	-	3,790	3,790
Deferred revenue:			
Succeeding year property tax	-	68,707	68,707
Total liabilities	<u>-</u>	<u>72,497</u>	<u>72,497</u>
Fund balances:			
Restricted for:			
School infrastructure	266,748	-	266,748
Unassigned	-	58,371	58,371
Total fund balances	<u>266,748</u>	<u>58,371</u>	<u>325,119</u>
Total liabilities and fund balances	<u>266,748</u>	<u>130,868</u>	<u>397,616</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2013

	Capital Projects		Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	246,620	226,038	472,658
Other	12,788	39	12,827
Total revenues	<u>259,408</u>	<u>226,077</u>	<u>485,485</u>
Expenditures:			
Current:			
Support services:			
Instructional staff services	22,275	8,631	30,906
Administration services	-	12,730	12,730
Operation and maintenance of plant	8,900	4,691	13,591
Transportation services	21,000	102,904	123,904
Other expenditures:			
Facilities acquisition	38,769	98,743	137,512
Total expenditures	<u>90,944</u>	<u>227,699</u>	<u>318,643</u>
Excess (deficiency) of revenues over (under) expenditures	168,464	(1,622)	166,842
Other financing sources (uses):			
Compensation for loss of fixed assets	-	517	517
Change in fund balance	168,464	(1,105)	167,359
Fund balances beginning of year	98,284	59,476	157,760
Fund balance end of year	<u>266,748</u>	<u>58,371</u>	<u>325,119</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2013

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	13,543	29,435	39,563	3,415
Vocal	1,815	-	-	1,815
Instrumental	181	259	7,981	(7,541)
MS student council	3	1,770	1,344	429
MS yearbook	-	1,212	1,287	(75)
Activity tickets	601	7,532	-	8,133
Interest	2,133	16	64	2,085
FFA	(167)	-	-	(167)
FFA scholarship CD	1,000	7	839	168
FCCLA	327	-	327	-
Student council-high school	(1,259)	-	-	(1,259)
Annual	3,320	70	-	3,390
Spanish club	909	-	-	909
Economics club	203	-	-	203
Voc. team club	301	-	-	301
FCA club	199	-	-	199
Elementary student council	158	5,774	4,178	1,754
Elementary read-a-thon	20	-	1,130	(1,110)
Elementary spec. olympics	59	-	-	59
Quiz bowl	107	1,790	2,138	(241)
Science club	331	-	-	331
Class of 2013	1,858	-	1,859	(1)
Class of 2014	2,245	-	2,246	(1)
Unassigned	267	-	267	-
	<u>28,154</u>	<u>47,865</u>	<u>63,223</u>	<u>12,796</u>
Total	<u>28,154</u>	<u>47,865</u>	<u>63,223</u>	<u>12,796</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2013

	Music Boosters	PTO	Total
	\$	\$	\$
Balance beginning of year	6,077	10	6,087
Additions:			
Interest	8	-	8
Deductions:			
Miscellaneous	4,654	-	4,654
Balance end of year	<u>1,431</u>	<u>10</u>	<u>1,441</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

For the Last Ten Years

	Modified Accrual Basis									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:										
Local sources:										
Local tax	2,399,279	2,903,676	2,850,957	2,826,020	2,539,679	2,012,115	2,233,285	2,330,981	2,237,918	2,056,297
Tuition	851,770	468,992	225,101	335,644	337,664	392,687	224,855	170,375	268,802	245,588
Other	114,005	122,164	145,580	163,066	295,599	218,591	190,038	188,682	216,864	199,033
State sources	1,142,946	1,227,618	1,458,634	1,132,617	1,140,199	1,449,950	1,269,405	1,204,489	1,476,134	1,410,097
Federal sources	173,215	293,934	364,517	447,013	259,875	230,159	168,919	265,687	401,412	136,897
Total revenues	<u>4,681,215</u>	<u>5,016,384</u>	<u>5,044,789</u>	<u>4,904,360</u>	<u>4,573,016</u>	<u>4,303,502</u>	<u>4,086,502</u>	<u>4,160,214</u>	<u>4,601,130</u>	<u>4,047,912</u>
Expenditures:										
Instruction:										
Regular	1,817,542	1,820,296	1,602,825	1,577,994	1,571,886	1,596,282	1,489,036	1,485,648	1,610,145	1,317,154
Special	1,064,120	769,192	766,492	781,785	733,770	649,827	577,662	566,513	756,089	737,332
Other	437,957	608,662	644,447	686,474	598,422	573,293	521,452	510,544	272,263	363,522
Support services:										
Student	39,782	59,859	38,812	55,026	45,888	86,469	52,491	52,417	51,628	46,247
Instructional staff	64,433	225,957	90,149	46,629	19,242	93,601	148,105	30,542	70,063	74,736
Administration	471,492	466,881	443,651	450,807	443,625	448,430	427,917	484,188	496,008	455,391
Operation and maintenance	263,108	291,827	306,092	298,365	317,614	428,217	361,119	338,416	274,303	230,455
Transportation	332,547	243,926	241,963	226,453	223,313	256,072	321,250	279,018	239,727	288,779
Other expenditures:										
Facilities acquisition	137,512	246,552	320,971	322,485	258,300	129,607	93,844	114,819	552,480	1,972,927
Long-term debt:										
Principal	-	130,000	125,000	120,000	120,000	115,000	110,000	110,000	105,000	100,000
Interest and other charges	-	5,245	9,570	13,480	17,380	20,830	23,718	26,193	28,293	30,193
AEA flowthrough	133,020	131,538	152,354	150,507	136,215	137,836	132,514	128,082	130,763	132,787
Total expenditures	<u>4,761,513</u>	<u>4,999,935</u>	<u>4,742,326</u>	<u>4,730,005</u>	<u>4,485,655</u>	<u>4,535,464</u>	<u>4,259,108</u>	<u>4,126,380</u>	<u>4,586,762</u>	<u>5,749,523</u>

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Kossuth Community School District and of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 2, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

North Kossuth Community School District's Responses to Findings

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

Purpose of this Report

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

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

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

April 2, 2014

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2013

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

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

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2013

Part II: Other Findings Related to Required Statutory Reporting:

13-II-A Certified Budget: Expenditures for the year ended June 30, 2013, exceeded the certified budget amounts in the instructional and non-instructional functions. The district also appears to have exceeded its general fund spending authority.

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

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

Conclusion: Response accepted.

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

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

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

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

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

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

Conclusion: Response accepted.

13-II-E 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.

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

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

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2013

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

- 13-II-H Supplementary Weighting: No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- 13-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 13-II-J Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.
- 13-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- 13-II-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

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

	\$	\$
Beginning balance		98,284
Revenues/transfers in:		
Sales tax revenues	246,620	
Other local revenues	12,788	259,408
	<u> </u>	
Expenditures/transfers out:		
School infrastructure	38,769	
Support services	52,175	90,944
	<u> </u>	<u> </u>
Ending balance		<u>266,748</u>

For the year ended June 30, 2013, the District did not reduce any levies as a result of the moneys received under Chapter 423e or 423F of the Code of Iowa.

- 13-II-M Fund Deficits: We noted several accounts in the Student Activity Fund with deficit balances at June 30, 2013.

Recommendation: The District should seek ways to eliminate the deficits.

District Response: We are trying to reduce those accounts with deficit balances.

Conclusion: Response accepted.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2013

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

13-II-N Supporting Documentation: We could not locate supporting documentation for certain credit card payments.

Recommendation: The District should receive sufficient documentation for all credit card charges and then reconcile the documentation to the invoices each month.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted.