

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2013

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Northwood-Kensett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Larry Hovey	President	2015
John Anderson	Vice President	2015
Roger Harris	Board Member	2013
Cindy Pangburn	Board Member	2015
Susan Kliment	Board Member	2013
School Officials		
Thomas Nugent	Superintendent	2013
Debra Athey	Business Manager/ Board Secretary/ Treasurer	2013
Ahlers & Cooney	Attorney	2013

Northwood-Kensett Community School District

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the Northwood-Kensett Community School District:

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 Northwood-Kensett Community School District, Northwood, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Members American Institute & Iowa Society of Certified Public Accountants

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northwood-Kensett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the eight years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on the financial statements. The supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2014 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Northwood-Kensett Community School District's internal control over financial reporting and compliance.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northwood-Kensett Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$5,384,423 in fiscal year 2012 to \$5,244,875 in fiscal 2013, while General Fund expenditures increased from \$5,276,376 in fiscal 2012 to \$5,411,496 in fiscal 2013. This resulted in a decrease in the District's General Fund balance from \$1,201,289 in fiscal 2012 to \$1,034,668 in fiscal 2013, a 13.87% decrease from the prior year.
- The decrease in General Fund revenues was largely attributable to a decrease in state and federal source revenues. The increase in expenditures was due primarily to an increase negotiated salaries and benefits.

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 Northwood-Kensett Community School District as a whole and present an overall view of the District's finances.

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

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

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

Supplementary Information provides detailed information about the nonmajor funds.

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

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

The required financial statements for the proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

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

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

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3								
Condensed Statement of Net Position								
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012	2012-13	
Current and other assets	\$ 5,448,747	5,517,918	33,152	32,723	5,481,899	5,550,641	-1.24%	
Capital assets	5,384,389	5,143,125	33,234	32,092	5,417,623	5,175,217	4.68%	
Total assets	10,833,136	10,661,043	66,386	64,815	10,899,522	10,725,858	1.62%	
Long-term obligations	1,364,699	1,745,855	3,491	2,629	1,368,190	1,748,484	-21.75%	
Other liabilities	3,243,480	2,890,470	20,033	2,971	3,263,513	2,893,441	12.79%	
Total liabilities	4,608,179	4,636,325	23,524	5,600	4,631,703	4,641,925	-0.22%	
Net position:								
Invested in capital assets, net of related debt	4,155,631	3,502,596	33,234	32,092	4,188,865	3,534,688	18.51%	
Restricted	1,167,351	1,405,005	-	-	1,167,351	1,405,005	-16.91%	
Unrestricted	901,975	1,117,117	9,628	27,123	911,603	1,144,240	-20.33%	
Total net position	\$ 6,224,957	6,024,718	42,862	59,215	6,267,819	6,083,933	3.02%	

The District's combined net position increased by 3.02%, or \$183,886 from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased \$237,654 or 16.91% over the prior year. The decrease was primarily a result of the decrease in the Capital Projects Accounts ending fund balance.

Unrestricted net position - the part of net position that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$232,637 or 20.33% from the prior year. The decrease in unrestricted net position was primarily a result of the decrease in the General Fund balance.

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

	Figure A-4						
	Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
2013	2012	2013	2012	2013	2012	2012-13	
Revenues:							
Program revenues:							
Charges for services	\$ 402,159	347,157	143,775	148,550	545,934	495,707	10.13%
Operating grants, contributions and restricted interest	679,780	680,200	139,388	118,037	819,168	798,237	2.62%
Capital grants, contributions and restricted interest	167,969	491,982	-	-	167,969	491,982	-65.86%
General revenues:							
Property tax	2,657,348	2,718,438	-	-	2,657,348	2,718,438	-2.25%
Statewide sales, services and use tax	421,191	390,324	-	-	421,191	390,324	7.91%
Unrestricted state grants	2,044,437	2,085,106	-	-	2,044,437	2,085,106	-1.95%
Nonspecific program federal grants	-	45,544	-	-	-	45,544	-100.00%
Unrestricted investment earnings	14,086	17,610	110	235	14,196	17,845	-20.45%
Other	35,722	58,437	1,587	1,151	37,309	59,588	-37.39%
Total revenues	6,422,692	6,834,798	284,860	267,973	6,707,552	7,102,771	-5.56%
Program expenses:							
Governmental activities:							
Instructional	4,003,869	3,924,667	-	-	4,003,869	3,924,667	2.02%
Support services	1,744,243	1,698,753	-	-	1,744,243	1,698,753	2.68%
Non-instructional programs	-	-	301,213	291,190	301,213	291,190	3.44%
Other expenses	474,341	450,961	-	-	474,341	450,961	5.18%
Total expenses	6,222,453	6,074,381	301,213	291,190	6,523,666	6,365,571	2.48%
Change in net position	200,239	760,417	(16,353)	(23,217)	183,886	737,200	-75.06%
Net position beginning of year	6,024,718	5,264,301	59,215	82,432	6,083,933	5,346,733	13.79%
Net position end of year	\$ 6,224,957	6,024,718	42,862	59,215	6,267,819	6,083,933	3.02%

In fiscal 2013, property tax, statewide sales, services and use tax and unrestricted state grants account for 79.76% of the revenue from governmental activities while charges for services and operating grants, contributions and restricted interest account for 99.40% of the revenue from business type activities.

The District's total revenues were \$6,707,552 of which \$6,422,692 was for governmental activities and \$284,860 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.56% decrease in revenues and a 2.48% increase in expenses. The increase in expenditures was due primarily to an increase negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$6,422,692 and expenses were \$6,222,453.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 4,003,869	3,924,667	2.02%	3,120,944	3,105,469	0.50%
Support services	1,744,243	1,698,753	2.68%	1,576,274	1,205,471	30.76%
Other expenses	474,341	450,961	5.18%	275,327	244,102	12.79%
Totals	\$ 6,222,453	6,074,381	2.44%	4,972,545	4,555,042	9.17%

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$402,159.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$679,780.
- Gaming grants subsidized certain programs with capital grants totaling \$167,969.
- The net cost of governmental activities was financed with \$2,657,348 in property tax, \$421,191 in statewide sales, services and use tax, \$2,044,437 in unrestricted state grants, \$14,086 in investment income and \$35,722 in other income.

Business Type Activities

Revenues of the District's business type activities were \$284,860 and expenses were \$301,213. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,071,811, below last year's ending fund balances of \$2,507,221. The primary reason for the decrease is attributable to the decrease in the Capital Projects Accounts ending fund balance.

Governmental Fund Highlights

- The District's decreased General Fund financial position is the result of many factors. The General Fund balance decreased from \$1,201,289 in fiscal 2012 to \$1,034,668 in fiscal 2013. The decrease in revenues was attributable to decreases in state and federal source revenues as compared to the prior year.
- The Capital Projects fund balance decreased from \$627,492 in fiscal 2012 to \$434,586 in fiscal 2013. The majority of the decrease was due to the decrease in other local source revenues in the Capital Projects: Physical Plant and Equipment Levy Fund as compared to the prior year.

Proprietary Funds Highlights

The School Nutrition Fund net position decreased from \$59,215 at June 30, 2012 to \$42,862 at June 30, 2013, representing a decrease of \$16,353 or 27.62 percent.

BUDGETARY HIGHLIGHTS

The District's revenues were \$98,181 more than budgeted revenues, a variance of 1.49%. The most significant variance resulted from the District receiving more from federal sources than originally anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$5,417,623, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$452,789.

The original cost of the District's capital assets was \$10,921,832. Governmental funds account for \$10,790,091 with the remainder of \$131,741 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the Improvements other than buildings category. The District's improvements other than buildings totaled \$891,169 at June 30, 2013 compared to \$107,346 at June 30, 2012. The increase is attributable to an addition of a high school sports complex.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 36,425	36,425	-	-	36,425	36,425	0.00%
Construction in progress	59,412	503,377	-	-	59,412	503,377	-88.20%
Buildings	3,996,054	4,055,715	-	-	3,996,054	4,055,715	-1.47%
Improvements other than buildings	891,169	107,346	-	-	891,169	107,346	730.18%
Machinery and equipment	401,329	440,262	33,234	32,092	434,563	472,354	-8.00%
Total	\$ 5,384,389	5,143,125	33,234	32,092	5,417,623	5,175,217	4.68%

Long-Term Debt

At June 30, 2013, the District had \$1,368,190 in other long-term debt outstanding. This represents a decrease of 21.75% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds payable of \$1,060,000 at June 30, 2013.

The District had total outstanding computer lease payable of \$168,758 at June 30, 2013. The District paid half of the computer lease from the Capital Projects: Statewide Sales, Services and Use Tax Fund and the other half from the Capital Projects: Physical Plant and Equipment Levy Fund.

The District had compensated absences payable of \$17,568 at June 30, 2013.

The District had a net OPEB liability of \$121,864 at June 30, 2013. Governmental activities account for \$118,373 and Business type activities account for \$3,491.

Figure A-7
Outstanding Long-Term Obligations

	Government Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
General obligation bonds	\$ 1,060,000	1,310,000	-	-	1,060,000	1,310,000	-19.08%
Leases payable	168,758	330,529	-	-	168,758	330,529	-48.94%
Compensated absences	17,568	19,129	-	-	17,568	19,129	-8.16%
Net OPEB liability	118,373	86,197	3,491	2,629	121,864	88,826	37.19%
Totals	\$ 1,364,699	1,745,855	3,491	2,629	1,368,190	1,748,484	-21.75%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's October 2013 certified enrollment showed an increase of 39.9 students; including 19.9 students in K-12 and 20 students in preschool.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Athey, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1st Avenue North, P.O. Box 289, Northwood, Iowa, 50459-0289.

Northwood-Kensett Community School District

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,491,784	29,787	2,521,571
Receivables:			
Property tax:			
Delinquent	26,496	-	26,496
Succeeding year	2,546,961	-	2,546,961
Income surtax	137,349	-	137,349
Accounts	5,999	-	5,999
Due from other governments	240,158	-	240,158
Inventories	-	3,365	3,365
Capital assets, net of accumulated depreciation	5,384,389	33,234	5,417,623
Total assets	10,833,136	66,386	10,899,522
Liabilities			
Accounts payable	108,674	641	109,315
Salaries and benefits payable	578,917	16,752	595,669
Accrued interest payable	3,893	-	3,893
Deferred revenue:			
Succeeding year property tax	2,546,961	-	2,546,961
Other	5,035	-	5,035
Unearned revenue	-	2,640	2,640
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	255,000	-	255,000
Computer lease payable	168,758	-	168,758
Compensated absences payable	17,568	-	17,568
Portion due after one year:			
General obligation bonds payable	805,000	-	805,000
Net OPEB liability	118,373	3,491	121,864
Total liabilities	4,608,179	23,524	4,631,703
Net Position			
Invested in capital assets, net of related debt	4,155,631	33,234	4,188,865
Restricted for:			
Categorical funding	147,926	-	147,926
Management levy purposes	426,785	-	426,785
School infrastructure	327,122	-	327,122
Physical plant and equipment	107,464	-	107,464
Student activities	88,252	-	88,252
Support trust	281	-	281
Debt service	69,521	-	69,521
Unrestricted	901,975	9,628	911,603
Total net position	\$ 6,224,957	42,862	6,267,819

SEE NOTES TO FINANCIAL STATEMENTS.

**NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 2,499,339	204,978	329,557	-	(1,964,804)	-	(1,964,804)
Special	779,669	74,410	25,422	-	(679,837)	-	(679,837)
Other	724,861	122,771	125,787	-	(476,303)	-	(476,303)
	<u>4,003,869</u>	<u>402,159</u>	<u>480,766</u>	<u>-</u>	<u>(3,120,944)</u>	<u>-</u>	<u>(3,120,944)</u>
Support services:							
Student	116,356	-	-	-	(116,356)	-	(116,356)
Instructional staff	315,821	-	-	-	(315,821)	-	(315,821)
Administration	605,487	-	-	-	(605,487)	-	(605,487)
Operation and maintenance of plant	410,684	-	-	167,969	(242,715)	-	(242,715)
Transportation	295,895	-	-	-	(295,895)	-	(295,895)
	<u>1,744,243</u>	<u>-</u>	<u>-</u>	<u>167,969</u>	<u>(1,576,274)</u>	<u>-</u>	<u>(1,576,274)</u>
Long-term debt interest	51,512	-	-	-	(51,512)	-	(51,512)
Other expenditures:							
AEA flowthrough	199,014	-	199,014	-	-	-	-
Depreciation(unallocated)*	223,815	-	-	-	(223,815)	-	(223,815)
	<u>422,829</u>	<u>-</u>	<u>199,014</u>	<u>-</u>	<u>(223,815)</u>	<u>-</u>	<u>(223,815)</u>
Total governmental activities	6,222,453	402,159	679,780	167,969	(4,972,545)	-	(4,972,545)
Business type activities:							
Non-instructional programs:							
Nutrition services	301,213	143,775	139,388	-	-	(18,050)	(18,050)
Total business type activities	<u>301,213</u>	<u>143,775</u>	<u>139,388</u>	<u>-</u>	<u>-</u>	<u>(18,050)</u>	<u>(18,050)</u>
Total	\$ <u>6,523,666</u>	<u>545,934</u>	<u>819,168</u>	<u>167,969</u>	<u>(4,972,545)</u>	<u>(18,050)</u>	<u>(4,990,595)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$ 2,133,081	-		2,133,081
Capital outlay				257,991	-		257,991
Debt service				109,461	-		109,461
Income surtax				156,815	-		156,815
Statewide sales, services and use tax				421,191	-		421,191
Unrestricted state grants				2,044,437	-		2,044,437
Unrestricted investment earnings				14,086	110		14,196
Other				35,722	1,587		37,309
Total general revenues				<u>5,172,784</u>	<u>1,697</u>		<u>5,174,481</u>
Change in net position				200,239	(16,353)		183,886
Net position beginning of year				6,024,718	59,215		6,083,933
Net position end of year	\$			<u>6,224,957</u>	<u>42,862</u>		<u>6,267,819</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	Capital			Total
	General	Projects	Nonmajor	
Assets				
Cash and pooled investments	\$ 1,626,679	263,975	601,130	2,491,784
Receivables:				
Property tax				
Delinquent	22,317	2,752	1,427	26,496
Succeeding year	1,924,303	285,015	337,643	2,546,961
Income surtax	137,349	-	-	137,349
Accounts	2,709	3,290	-	5,999
Due from other governments	88,049	152,109	-	240,158
Due from other funds	-	22,645	-	22,645
Total assets	\$ 3,801,406	729,786	940,200	5,471,392
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 22,645	-	-	22,645
Accounts payable	98,489	10,185	-	108,674
Salaries and benefits payable	578,917	-	-	578,917
Deferred revenue:				
Succeeding year property tax	1,924,303	285,015	337,643	2,546,961
Income surtax	137,349	-	-	137,349
Other	5,035	-	-	5,035
Total liabilities	2,766,738	295,200	337,643	3,399,581
Fund balances:				
Restricted for:				
Categorical funding	147,926	-	-	147,926
Management levy purposes	-	-	426,785	426,785
School infrastructure	-	327,122	-	327,122
Physical plant and equipment	-	107,464	-	107,464
Student activities	-	-	88,252	88,252
Support trust	-	-	281	281
Debt service	-	-	73,414	73,414
Unassigned:				
General	886,742	-	-	886,742
Student activity	-	-	(675)	(675)
Support trust	-	-	14,500	14,500
Total fund balances	1,034,668	434,586	602,557	2,071,811
Total liabilities and fund balances	\$ 3,801,406	729,786	940,200	5,471,392

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds(page 20)	\$	2,071,811
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		5,384,389
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		137,349
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(3,893)
Long-term liabilities, including general obligation bonds payable, lease obligations, compensated absences payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(1,364,699)</u>
Net position of governmental activities(page 18)	\$	<u><u>6,224,957</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor	Total
Revenues:				
Local sources:				
Local tax	\$ 2,254,752	679,182	134,283	3,068,217
Tuition	267,495	-	-	267,495
Other	317,009	169,896	183,946	670,851
State sources	2,252,675	123	65	2,252,863
Federal sources	152,944	-	-	152,944
Total revenues	<u>5,244,875</u>	<u>849,201</u>	<u>318,294</u>	<u>6,412,370</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,398,634	-	17,820	2,416,454
Special	757,845	-	-	757,845
Other	519,768	-	186,655	706,423
	<u>3,676,247</u>	<u>-</u>	<u>204,475</u>	<u>3,880,722</u>
Support services:				
Student	113,464	-	-	113,464
Instructional staff	219,597	-	-	219,597
Administration	576,609	-	11,650	588,259
Operation and maintenance of plant	378,668	-	50,022	428,690
Transportation	247,897	63,591	17,886	329,374
	<u>1,536,235</u>	<u>63,591</u>	<u>79,558</u>	<u>1,679,384</u>
Capital outlay	-	622,470	-	622,470
Long-term debt:				
Principal	-	-	411,771	411,771
Interest	-	-	54,419	54,419
	<u>-</u>	<u>-</u>	<u>466,190</u>	<u>466,190</u>
Other expenditures:				
AEA flowthrough	199,014	-	-	199,014
Total expenditures	<u>5,411,496</u>	<u>686,061</u>	<u>750,223</u>	<u>6,847,780</u>
Excess(Deficiency) of revenues over(under) expenditures	(166,621)	163,140	(431,929)	(435,410)
Other financing sources(uses):				
Transfer in	-	-	356,046	356,046
Transfer out	-	(356,046)	-	(356,046)
Total other financing sources(uses)	<u>-</u>	<u>(356,046)</u>	<u>356,046</u>	<u>-</u>
Change in fund balances	(166,621)	(192,906)	(75,883)	(435,410)
Fund balances beginning of year	<u>1,201,289</u>	<u>627,492</u>	<u>678,440</u>	<u>2,507,221</u>
Fund balances end of year	<u>\$ 1,034,668</u>	<u>434,586</u>	<u>602,557</u>	<u>2,071,811</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Change in fund balances - total governmental funds(page 22) \$ (435,410)

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

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

Capital outlay	\$ 693,498	
Depreciation expense	(447,678)	
Loss on disposal of assets	(4,556)	241,264

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 10,322

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.

Compensated absences	1,561	
Other postemployment benefits	(32,176)	(30,615)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 411,771

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,907

Change in net position of governmental activities(page 19) \$ 200,239

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
NONMAJOR PROPRIETARY FUND
JUNE 30, 2013

	School Nutrition
Assets	
Cash and pooled investments	\$ 29,787
Inventories	3,365
Capital assets, net of accumulated depreciation	33,234
Total assets	66,386
 Liabilities	
Accounts payable	641
Salaries and benefits payable	16,752
Unearned revenues	2,640
Net OPEB liability	3,491
Total liabilities	23,524
 Net Position	
Invested in capital assets	33,234
Unrestricted	9,628
Total net position	\$ 42,862

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT H

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

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for services	\$ 143,775
Donations	4,500
Miscellaneous	1,587
Total operating revenues	<u>149,862</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	88,326
Benefits	27,714
Services	6,545
Supplies	168,309
Depreciation	5,111
Other	5,208
Total operating expenses	<u>301,213</u>
Operating loss	<u>(151,351)</u>
Non-operating revenues:	
State sources	2,707
Federal sources	132,181
Interest income	110
Total non-operating revenues	<u>134,998</u>
Change in net position	(16,353)
Net position beginning of year	<u>59,215</u>
Net position end of year	<u>\$ 42,862</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 144,094
Cash received from donations	4,500
Cash received from miscellaneous operating activities	1,587
Cash payments to employees for services	(98,426)
Cash payments to suppliers for goods or services	(166,944)
Net cash used in operating activities	(115,189)
Cash flows from non-capital financing activities:	
State grants received	2,707
Federal grants received	120,056
Net cash provided by non-capital financing activities	122,763
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(6,253)
Cash flows from investing activities:	
Interest on investment	110
Net increase in cash and cash equivalents	1,431
Cash and cash equivalents at beginning of year	28,356
Cash and cash equivalents at end of year	\$ 29,787
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (151,351)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	12,125
Depreciation	5,111
Decrease in inventories	1,002
Decrease in accounts payable	(9)
Increase in salaries and benefits payable	16,752
Increase in unearned revenue	319
Increase in net OPEB liability	862
Net cash used in operating activities	\$ (115,189)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2013, the District received \$12,125 of federal commodities.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 460,006
Liabilities	-
Net Position	
Restricted for scholarships	\$ 460,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2013

		Private Purpose Trust	Scholarship
Additions:			
Local sources:			
Interest	\$	12,073	
Contributions		17,727	
Total additions		29,800	
Deductions:			
Instruction:			
Regular:			
Scholarships			27,615
Income before other financing sources		2,185	
Other financing sources(uses):			
Unrealized loss		(8,115)	
Unrealized gain		1,999	
Miscellaneous		(100)	
Total other financing sources(uses)		(6,216)	
Change in net position		(4,031)	
Net position beginning of year		464,037	
Net position end of year	\$	460,006	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net 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 support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

The District also reports fiduciary funds which focus on net 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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Intangibles	5-10 years
Machinery and equipment	5-20 years

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013, expenditures in the other expenditures functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2013 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013, the District had investments in VSR Financial valued at \$233,653 pursuant to Rule 2a-7 under the Investment Act of 1940.

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

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

Receivable Fund	Payable Fund	
Capital Projects:	General	
Statewide Sales, Services and Use Tax		\$ 22,645

The General Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax Fund for repairs and maintenance expenses on district buses (see comment II-L-13).

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 268,023
Debt Service	Capital Projects: Physical Plant and Equipment Levy	88,023
Total		<u>\$ 356,046</u>

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

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

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,425	-	-	36,425
Construction in progress	503,377	386,021	829,986	59,412
Total capital assets not being depreciated	<u>539,802</u>	<u>386,021</u>	<u>829,986</u>	<u>95,837</u>
Capital assets being depreciated:				
Buildings	7,114,217	119,688	8,331	7,225,574
Land improvements	167,981	829,986	-	997,967
Machinery and equipment	2,364,113	187,789	81,189	2,470,713
Total capital assets being depreciated	<u>9,646,311</u>	<u>1,137,463</u>	<u>89,520</u>	<u>10,694,254</u>
Less accumulated depreciation for:				
Buildings	3,058,502	177,652	6,634	3,229,520
Land improvements	60,635	46,163	-	106,798
Machinery and equipment	1,923,851	223,863	78,330	2,069,384
Total accumulated depreciation	<u>5,042,988</u>	<u>447,678</u>	<u>84,964</u>	<u>5,405,702</u>
Total capital assets being depreciated, net	<u>4,603,323</u>	<u>689,785</u>	<u>4,556</u>	<u>5,288,552</u>
Governmental activities capital assets, net	<u>\$ 5,143,125</u>	<u>1,075,806</u>	<u>834,542</u>	<u>5,384,389</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 137,081	6,253	11,593	131,741
Less accumulated depreciation	104,989	5,111	11,593	98,507
Business type activities capital assets, net	\$ 32,092	1,142	-	33,234

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 61,331

Support services:

Instructional staff 94,366

Operation and maintenance of plant 18,141

Transportation 50,025

223,863

Unallocated depreciation 223,815

Total governmental activities depreciation expense \$ 447,678

Business type activities:

Food services \$ 5,111

(6) Long Term Liabilities

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,310,000	-	250,000	1,060,000	255,000
Computer leases payable	330,529	-	161,771	168,758	168,758
Compensated absences	19,129	17,568	19,129	17,568	17,568
Net OPEB liability	86,197	32,176	-	118,373	-
Total	\$ 1,745,855	49,744	430,900	1,364,699	441,326
Business type activities:					
Net OPEB liability	\$ 2,629	862	-	3,491	-

General Obligation Bonds Payable

Details of the District's June 30, 2013 general obligation bond indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 5, 2009				
	Interest Rates		Principal	Interest	Total
2014	3.00	%	\$ 255,000	32,143	287,143
2015	3.00		260,000	24,494	284,494
2016	3.00		270,000	16,694	286,694
2017	3.13		275,000	8,594	283,594
Total			\$ 1,060,000	81,925	1,141,925

Computer Leases Payable

The District paid half of the computer lease from the Capital Projects: Statewide Sales, Services and Use Tax Fund and the other half from the Capital Projects: Physical Plant and Equipment Levy Fund. Details of the District's June 30, 2013 computer lease payable indebtedness are as follows:

Year Ending June 30,	Computer lease dated July 1, 2010				
	Interest Rates		Principal	Interest	Total
2014	4.32	\$	\$ 168,758	7,288	176,046

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$246,205, \$253,967, and \$217,598 respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits

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

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

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

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

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

Annual required contribution	\$ 34,957
Interest on net OPEB obligation	2,221
Adjustment to annual required contribution	(4,140)
Annual OPEB cost	<u>33,038</u>
Contributions made	-
Increases in net OPEB obligation	<u>33,038</u>
Net OPEB obligation beginning of year	<u>88,826</u>
Net OPEB obligation end of year	<u><u>\$ 121,864</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$0 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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

Year Ended June 30,	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 30,705	6.18%	\$ 57,533
2012	33,568	6.78%	88,826
2013	33,038	0.00%	121,864

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 \$328,668, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$328,668. The covered payroll (annual payroll of active employees covered by the plan) was \$3,038,602 and the ratio of the UAAL to covered payroll was 10.82%. As of June 30, 2013, there were no trust fund assets.

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

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

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

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

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$199,014 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Categorical Funding

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

Program	Amount
Market factor	\$ 3,807
Professional development for core curriculum	32,852
Professional development	43,376
Teacher salary supplement	66,126
Market factor incentives	1,765
Total	\$ 147,926

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2013, expenditures in the other expenditures functional area exceeded the budgeted amounts.

(13) Financial Condition

The District had one account in the Special Revenue: Student Activity Fund with a deficit balance of \$675 at June 30, 2013.

(14) Construction Commitments

The District has entered into contracts totaling \$252,252 for an elementary and secondary school renovation project. As of June 30, 2013, costs of \$59,412 had been incurred against the contracts. The balance of \$192,840 remaining at year end will be paid as work on the contracts progresses.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 4,006,563	149,972	4,156,535	4,084,486	4,084,486	72,049
State sources	2,252,863	2,707	2,255,570	2,253,763	2,253,763	1,807
Federal sources	152,944	132,181	285,125	260,800	260,800	24,325
Total revenues	6,412,370	284,860	6,697,230	6,599,049	6,599,049	98,181
Expenditures/Expenses:						
Instruction	3,880,722	-	3,880,722	4,242,200	4,242,200	361,478
Support services	1,679,384	-	1,679,384	1,703,200	1,703,200	23,816
Non-instructional programs	-	301,213	301,213	314,500	314,500	13,287
Other expenditures	1,287,674	-	1,287,674	1,112,227	1,112,227	(175,447)
Total expenditures/expenses	6,847,780	301,213	7,148,993	7,372,127	7,372,127	223,134
Deficiency of revenues under expenditures/expenses	(435,410)	(16,353)	(451,763)	(773,078)	(773,078)	321,315
Balances beginning of year	2,507,221	59,215	2,566,436	2,144,316	2,144,316	422,120
Balances end of year	\$ 2,071,811	42,862	2,114,673	1,371,238	1,371,238	743,435

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

During the year ended June 30, 2013, expenditures in the other expenditures functional area exceeded the amounts budgeted.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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	-	\$ 277,457	277,457	0.00%	\$ 2,424,048	11.45%
2011	July 1, 2009	-	270,976	270,976	0.00%	2,962,164	9.15%
2012	July 1, 2009	-	256,453	256,453	0.00%	2,956,028	8.68%
2013	July 1, 2012	-	328,668	328,668	0.00%	3,038,602	10.82%

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

SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue					Total
	Management Levy	Student Activity	Support Trust	Total		
				Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 426,525	87,577	14,781	528,883	72,247	601,130
Receivables:						
Property tax:						
Delinquent	260	-	-	260	1,167	1,427
Succeeding year	50,000	-	-	50,000	287,643	337,643
Total assets	\$ 476,785	87,577	14,781	579,143	361,057	940,200
Liabilities and Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 50,000	-	-	50,000	287,643	337,643
Fund balances:						
Restricted for:						
Student activities	-	88,252	-	88,252	-	88,252
Support trust	-	-	281	281	-	281
Management levy purposes	426,785	-	-	426,785	-	426,785
Debt service	-	-	-	-	73,414	73,414
Unassigned	-	(675)	14,500	13,825	-	13,825
Total fund balances	426,785	87,577	14,781	529,143	73,414	602,557
Total liabilities and fund balances	\$ 476,785	87,577	14,781	579,143	361,057	940,200

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					Total
	Management Levy	Student Activity	Support Trust	Total		
				Special Revenue	Debt Service	
Revenues:						
Local sources:						
Local tax	\$ 24,822	-	-	24,822	109,461	134,283
Other	5,009	178,343	121	183,473	473	183,946
State sources	13	-	-	13	52	65
Total revenues	29,844	178,343	121	208,308	109,986	318,294
Expenditures:						
Current:						
Instruction:						
Regular	16,604	-	1,216	17,820	-	17,820
Other	-	186,655	-	186,655	-	186,655
Support services:						
Administration	11,650	-	-	11,650	-	11,650
Operation and maintenance of plant	50,022	-	-	50,022	-	50,022
Transportation	17,886	-	-	17,886	-	17,886
Other expenditures:						
Long-term debt:						
Principal	-	-	-	-	411,771	411,771
Interest	-	-	-	-	54,419	54,419
Total expenditures	96,162	186,655	1,216	284,033	466,190	750,223
Deficiency of revenues under expenditures	(66,318)	(8,312)	(1,095)	(75,725)	(356,204)	(431,929)
Other financing sources:						
Transfer in	-	-	-	-	356,046	356,046
Changes in fund balance	(66,318)	(8,312)	(1,095)	(75,725)	(158)	(75,883)
Fund balances beginning of year	493,103	95,889	15,876	604,868	73,572	678,440
Fund balances end of year	\$ 426,785	87,577	14,781	529,143	73,414	602,557

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT 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 and pooled investments	\$ 151,511	112,464	263,975
Receivables:			
Property tax:			
Delinquent	-	2,752	2,752
Succeeding year	-	285,015	285,015
Accounts	1,542	1,748	3,290
Due from other funds	22,645	-	22,645
Due from other governments	152,109	-	152,109
Total assets	\$ 327,807	401,979	729,786
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 685	9,500	10,185
Deferred revenue:			
Succeeding year property tax	-	285,015	285,015
	685	294,515	295,200
Fund balances:			
Restricted for:			
School infrastructure	327,122	-	327,122
Physical plant and equipment	-	107,464	107,464
Total fund balances	327,122	107,464	434,586
Total liabilities and fund balances	\$ 327,807	401,979	729,786

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 421,191	257,991	679,182
Other	1,055	168,841	169,896
State sources	-	123	123
Total revenues	<u>422,246</u>	<u>426,955</u>	<u>849,201</u>
Expenditures:			
Support services:			
Transportation	63,591	-	63,591
Other expenditures:			
Capital outlay	105,463	517,007	622,470
Total expenditures	<u>169,054</u>	<u>517,007</u>	<u>686,061</u>
Excess(Deficiency) of revenues over(under) expenditures	253,192	(90,052)	163,140
Other financing uses:			
Transfer out	<u>(268,023)</u>	<u>(88,023)</u>	<u>(356,046)</u>
Changes in fund balances	(14,831)	(178,075)	(192,906)
Fund balances beginning of year	<u>341,953</u>	<u>285,539</u>	<u>627,492</u>
Fund balances end of year	<u>\$ 327,122</u>	<u>107,464</u>	<u>434,586</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfer	Balance End of Year
Drama	\$ 485	1,649	85	-	2,049
Speech	-	964	569	-	395
Vocal music	5,350	794	2,068	(72)	4,004
Choir robe	2,522	10	-	72	2,604
High school band	2,302	5,561	7,459	(404)	-
Elementary band	216	249	235	-	230
High school band uniforms	27,582	9,056	12,975	419	24,082
High school horn rent/repair	775	660	858	-	577
Instrument repair	3,208	2,000	4,343	-	865
Elementary horn repair	45	75	82	-	38
Band trip	5,370	400	-	-	5,770
General athletics	-	49	-	(49)	-
Athletic passes	-	16,795	8,120	(8,675)	-
Adopt a hurdle	-	-	-	2,300	2,300
Athletic uniforms	-	9,000	7,812	(1,188)	-
Camps	-	7,754	6,793	(961)	-
Boys basketball	-	5,036	3,691	(1,345)	-
Football	-	5,286	8,576	3,290	-
Baseball	(1,431)	345	3,515	3,926	(675)
Boys track	-	4,646	3,729	(917)	-
Boys golf	-	-	892	892	-
Wrestling	-	2,376	1,777	(599)	-
Junior high wrestling	-	-	130	130	-
Trap	-	-	1,498	1,498	-
Girls basketball	-	5,643	4,086	(1,557)	-
Volleyball	-	3,856	3,248	(608)	-
Softball	(1,511)	852	2,316	2,975	-
Girls track	-	732	1,321	589	-
Girls golf	-	20	523	503	-
FFA	24,331	37,970	42,356	(80)	19,865
Math club	29	2,671	1,383	-	1,317
Honor society	1,304	814	1,783	-	335
High school student council	686	2,289	1,552	-	1,423
FBLA	1,399	-	-	-	1,399
Cheerleaders	2,582	8,285	8,483	-	2,384
Spanish club	4,090	21,438	22,739	80	2,869
FCCLA club	3,908	3,727	4,657	-	2,978

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 5

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfer	Balance End of Year
Class of 2013	2,179	973	2,397	-	755
Class of 2014	2,902	1,290	2,960	-	1,232
Class of 2015	1,336	925	53	-	2,208
Class of 2016	719	1,265	37	-	1,947
Class of 2017	229	440	206	-	463
Class of 2018	-	451	196	-	255
Stevens tech lab	526	-	-	-	526
CHIP	277	2,774	2,921	-	130
HS student of the month	747	2,000	1,133	-	1,614
Yearbook	2,454	6,771	6,865	-	2,360
Interest on checking	-	244	233	(11)	-
Interest on CD's	-	208	-	(208)	-
Elementary activities	460	-	-	-	460
Band CD	818	-	-	-	818
Total	\$ 95,889	178,343	186,655	-	87,577

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2013

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Richard Holstad	Richard Moen	Margaret Sigmond	Total
Assets						
Cash and pooled investments	\$ 45,577	82,905	188,076	47,647	95,801	460,006
Net Position						
Restricted for scholarships	\$ 45,577	82,905	188,076	47,647	95,801	460,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Hollstad	Richard Moen	Margaret Sigmond	Total
Additions:						
Local sources:						
Interest	\$ 2,305	502	8,904	-	362	12,073
Contributions	-	-	-	17,727	-	17,727
Total additions	2,305	502	8,904	17,727	362	29,800
Deductions:						
Instruction:						
Regular:						
Scholarships	5,000	4,000	10,615	2,000	6,000	27,615
Excess(Deficiency) of revenues before other financing sources(uses) over(under) expenditures/expenses	(2,695)	(3,498)	(1,711)	15,727	(5,638)	2,185
Other financing sources(uses):						
Unrealized loss	(1,878)	-	(6,237)	-	-	(8,115)
Unrealized gain	1,075	-	924	-	-	1,999
Miscellaneous	(50)	-	(50)	-	-	(100)
Total other financing sources(uses)	(853)	-	(5,363)	-	-	(6,216)
Change in net position	(3,548)	(3,498)	(7,074)	15,727	(5,638)	(4,031)
Net position beginning of year	49,125	86,403	195,150	31,920	101,439	464,037
Net position end of year	\$ 45,577	82,905	188,076	47,647	95,801	460,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 3,068,217	3,116,715	3,062,190	2,972,294	3,131,384	2,824,046	2,637,136	2,473,383	2,376,421	2,154,280
Tuition	267,495	173,014	203,029	150,764	124,768	107,205	102,073	72,369	81,471	64,500
Other	670,851	986,414	833,342	664,851	631,206	472,856	309,594	275,466	242,923	226,566
Intermediate sources	-	-	35,355	-	-	-	-	-	13,093	-
State sources	2,252,863	2,344,585	2,284,853	1,884,861	2,258,461	2,449,968	2,307,226	2,311,952	2,150,064	1,887,359
Federal sources	152,944	222,023	299,603	508,405	162,788	137,119	149,978	149,419	190,625	200,208
Total	\$ 6,412,370	6,842,751	6,718,372	6,181,175	6,308,607	5,991,194	5,506,007	5,282,589	5,054,597	4,532,913
Expenditures:										
Instruction:										
Regular	\$ 2,416,454	2,510,473	2,447,279	2,418,053	2,247,875	2,056,668	1,958,278	1,824,877	1,744,473	1,882,702
Special	757,845	841,542	750,244	716,357	753,003	738,386	743,155	669,142	719,381	642,003
Other	706,423	685,168	673,350	586,096	573,905	564,915	560,747	511,898	473,065	409,380
Support services:										
Student	113,464	109,798	103,912	99,287	92,398	90,615	64,307	74,091	133,658	128,773
Instructional staff	219,597	175,857	162,989	851,584	179,334	179,418	103,279	96,818	100,568	123,543
Administration	588,259	577,696	561,376	541,711	568,510	524,524	538,601	513,783	450,089	427,141
Operation and maintenance of plant	428,690	371,685	390,718	417,522	346,522	387,131	391,114	366,725	335,670	323,659
Transportation	329,374	240,884	211,265	243,270	197,434	228,921	213,196	197,981	143,065	137,278
Capital outlay	622,470	674,260	481,270	576,428	252,567	438,706	73,987	119,990	192,102	361,474
Long-term debt:										
Principal	411,771	390,074	378,654	237,389	211,917	201,463	274,895	204,290	225,078	219,167
Interest	54,419	68,167	81,436	61,737	113,782	118,566	129,451	138,463	149,020	157,512
Other expenditures:										
AEA flowthrough	199,014	206,859	228,179	215,037	181,370	178,412	170,051	164,998	155,958	151,485
Total	\$ 6,847,780	6,852,463	6,470,672	6,964,471	5,718,617	5,707,725	5,221,061	4,883,056	4,822,127	4,964,117

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the Northwood-Kensett 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 Northwood-Kensett Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwood-Kensett 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 Northwood-Kensett Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwood-Kensett Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be 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 deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

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

Compliance and Other Matters

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

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

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

Northwood-Kensett Community School District's Responses to Findings

Northwood-Kensett Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Northwood-Kensett 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 Northwood-Kensett Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2014
Newton, Iowa

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

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

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

Response - The District is aware of the lack of segregation of duties and will make changes as personnel availability allows.

Conclusion - Response acknowledged.

I-B-13 Payroll Procedures - We noted during our audit the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff.

Response - The District will be implementing a time card procedure for coaches who are non-certified staff beginning in fiscal year 2015.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Certified Budget - Expenditures for the year ended June 30, 2013 exceeded the certified budget amounts in the other expenditures function.

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

Response - Required budget amendments will be filed as necessary beginning with fiscal year 2014.

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Robin Fredericks, Bus driver & Aide Spouse owns A&I Auto	Repairs	\$10,698
Ryan Severson, Teacher Brothers own Northwood Lumber	Purchased services	\$157
Lori Willert, Teacher Spouse owns S&L Masonry	Purchased services	\$1,700
Tom Sculley, Bus driver Owns Village Florist	Flowers	\$28
Brian Campbell, Teacher Co-owns Soup's Pizzeria & Grill	Food	\$240
Roger Harris, Board Member Sister owns Cornerpost	Food	\$239
Roger Harris, Board Member Sister owns Signature Supper Club	Meals	\$449
Larry Hovey, Board Member Co-Owns Hovey's Lawn & Garden	Lawn care, per bid	\$6,413
Larry Hovey, Board Member Employee of North Country Equipment, LLC	Parts/repairs	\$1,369

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the spouses, brothers and sisters of District employees and board members do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Tom Sculley and Brian Campbell do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the code of Iowa, the above transaction with the Board President Larry Hovey does not appear to represent a conflict of interest. The lawn care services were chosen by bid and the board selected the bid while Larry Hovey abstained from the vote.

- II-E-13 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-13 Certified Enrollment - No variances regarding the enrollment certified to the Iowa Department of Education were noted.
- II-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-13 Deposits and Investments - The District's investment policy does appear to comply with Chapter 12B and Chapter 12C of the Code of Iowa, however, we noted during our audit that the District owned mutual funds through VSR Financial. These are instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa, as well as the District's investment policy.

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

Response - Recommendation has been given to VSR Financial and investment changes will be made when doing so will not result in a loss on investment.

Conclusion - Response accepted.

- II-J-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-13 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-13 Statewide Sales, Services and Use Tax - We noted during our audit that the District paid for repairs and maintenance on district buses. The District's revenue purpose statement allows the District to use statewide sales, services and use tax for physical plant and equipment levy(PPEL) type expenditures. Iowa Administrative Code 281 Chapter 98.64(3) specifically disallows vehicle repairs and maintenance from PPEL; therefore, it would appear that repairs and maintenance on district buses would not be allowable from the Capital Projects: Statewide Sales, Services and Use Tax Fund.

An interfund payable/receivable from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund for \$22,645 has been shown on the financial statements due to the materiality of the amount of each fund.

Recommendation - The District needs to have the Board of Directors approve the repayment of \$22,645 from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund as a correction for the unallowable repairs and maintenance expenditures. The District should review Iowa Administrative Code 281 Chapter 98.64(3) for allowability of expenditures from the Statewide Sales, Services and Use Tax Fund.

Response - The General Fund repaid the Capital Projects: Statewide Sales, Services and Use Tax Fund \$22,645.42 in October 2013.

Conclusion - Response accepted.

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 following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2013 audit:

Beginning Balance		\$	341,953
Revenues:			
Sales tax revenues	\$	421,191	
Other local revenues		1,055	422,246
			<u>764,199</u>
Expenditures/transfer out:			
Equipment	\$	169,054	
Transfer to other funds:			
Debt service fund		268,023	437,077
			<u>437,077</u>
Ending Balance		\$	<u><u>327,122</u></u>

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

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service levy	\$ 1.03244	\$ 268,023

II-M-13 Scholarship Awards - We noted during our audit that the District paid FFA scholarships from the Student Activity Fund.

Recommendation - Scholarships are most appropriately paid from the Private Purpose Trust Fund. The District should use the Private Purpose Trust Fund to account for scholarships given to students.

Response - Accounts have been set up in the Private Purpose Trust Fund to distribute FFA scholarships.

Conclusion - Response accepted.

II-N-13 Financial Condition - We noted during our audit that the District had one account in the Special Revenue: Student Activity Fund with a deficit balance of \$675 at June 30, 2013.

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

Response - The District will evaluate account balances and make appropriate adjustments to keep balances positive in the Student Activity Fund.

Conclusion - Response accepted.

II-O-13 Checks Outstanding - We noted during our audit the District had checks included in the General Fund and Activity Fund bank reconciliations that have been outstanding for over a year.

Recommendation - The District needs to determine if the checks need to be voided, reissued or submitted to the State Treasurer as unclaimed property. Per chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st.

Response - Uncashed check letters are mailed to vendors to attempt to identify if the check should be voided or reissued. If no response is received, it will be submitted to the State Treasurer after the three year dormancy period as unclaimed property.

Conclusion - Response accepted.

II-P-13 Authorized Check Signatures - We noted during our audit, a couple checks that only had the board president's signature. Chapter 291.1 of the Code of Iowa requires the Board President and the Board Secretary to sign all checks issued. Also, pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in her absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapters 291.1 and 291.8 of the Code of Iowa.

Response - All checks will be reviewed for proper signatures prior to mailing.

Conclusion - Response accepted.