

ESSEX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2015

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<u>Name</u>	<u>Officials</u> <u>Title</u>	<u>Term</u> <u>Expires</u>
<b>Board of Education</b>		
Doug Ohnmacht	President	2015
April Scott	Vice President	2017
Blake Jensen	Board Member	2015
Dustin Frank	Board Member	2017
Christy Johnson	Board Member	2015
<b>School Officials</b>		
Paul Croghan	Superintendent	2015
Sherri Ruzek	Business Manager	2015
Kay Petersen	Board Secretary	2015
Ahlers & Cooney, P.C.	Attorney	2015

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**INDEPENDENT AUDITOR'S REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District, Essex, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District as of June 30, 2015, 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.

## **Emphasis of Matter**

As discussed in Note 15 to the financial statements, Essex Community School District adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Essex Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 14, 2016 on our consideration of Essex Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Essex Community School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

April 14, 2016  
Newton, Iowa

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Essex Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,736,454 in fiscal year 2014 to \$2,987,547 in fiscal year 2015, while General Fund expenditures decreased from \$2,854,960 in fiscal year 2014 to \$2,768,458 in fiscal year 2015. This resulted in an increase in the District's General Fund balance from \$257,583 at June 30, 2014 to \$476,672 at June 30, 2015, an 85.06% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state source revenues in fiscal 2015. The increase in expenditures was due to increases in instruction and support services expenses.

### USING THIS ANNUAL REPORT

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

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Essex Community School District as a whole and present an overall view of the District's finances.

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

Notes to 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, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

**Figure A-1**  
**Essex Community School District Annual Financial Report**

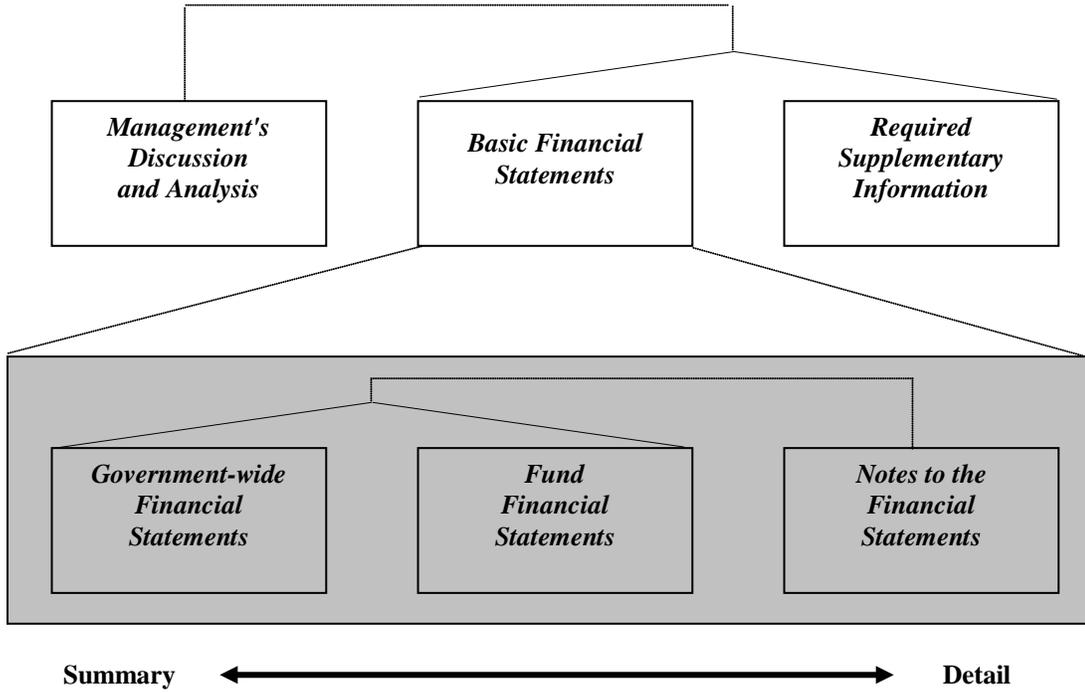


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
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 deferred outflow / inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of fund balance that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period.
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

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assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. 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 it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

- Agency Fund - These are funds are used to account for the District's benevolence funds.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2015 compared to June 30, 2014.

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,
	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2015	2014 (Not Restated)	2014-15
Current and other assets	\$ 2,840,643	2,329,613	8,444	2,992	2,849,087	2,332,605	22.14%
Capital assets	1,912,485	1,887,525	23,094	26,184	1,935,579	1,913,709	1.14%
Total assets	<u>4,753,128</u>	<u>4,217,138</u>	<u>31,538</u>	<u>29,176</u>	<u>4,784,666</u>	<u>4,246,314</u>	<u>12.68%</u>
Deferred outflows of resources	175,214	-	5,108	-	180,322	-	100.00%
Long-term liabilities	1,490,538	569,781	24,126	-	1,514,664	569,781	165.83%
Other liabilities	361,605	319,089	5,128	6,598	366,733	325,687	12.60%
Total liabilities	<u>1,852,143</u>	<u>888,870</u>	<u>29,254</u>	<u>6,598</u>	<u>1,881,397</u>	<u>895,468</u>	<u>110.10%</u>
Deferred inflows of resources	1,608,616	1,089,130	9,457	-	1,618,073	1,089,130	48.57%
Net position:							
Net investment in capital assets	1,543,138	1,499,323	23,094	26,184	1,566,232	1,525,507	2.67%
Restricted	692,803	597,049	-	-	692,803	597,049	16.04%
Unrestricted	(768,358)	142,766	(25,159)	(3,606)	(793,517)	139,160	-670.22%
Total net position	<u>\$ 1,467,583</u>	<u>2,239,138</u>	<u>(2,065)</u>	<u>22,578</u>	<u>1,465,518</u>	<u>2,261,716</u>	<u>-35.20%</u>

The District's combined net position decreased by 35.20%, or \$796,198 from the prior year. The largest portion of the District's net position is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased 16.04%, or \$95,754 compared to the prior year. The increase in restricted net position is primarily the result of the increase in the Management Levy 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 670.22% or \$932,677 from the prior year. The decrease in unrestricted net position is primarily the result of the District's net pension liability net pension expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by 1,138,479 and 30,510, respectively, to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to June 30, 2014.

	Figure A-4 Changes in Net Position						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2014 (Not restated)		2014 (Not restated)		2014 (Not restated)		2014-15
	2015	(Not restated)	2015	(Not restated)	2015	(Not restated)	
Revenues:							
Program revenues:							
Charges for service	\$ 471,480	519,974	63,000	62,621	534,480	582,595	-8.26%
Operating grants, contributions and restricted interest	276,188	247,443	76,114	72,495	352,302	319,938	10.12%
Capital grants, contributions and restricted interest	-	7,190	-	-	-	7,190	-100.00%
General revenues:							
Property tax	1,086,923	1,038,315	-	-	1,086,923	1,038,315	4.68%
Income surtax	116,998	140,451	-	-	116,998	140,451	-16.70%
Statewide sales, services and use tax	222,018	189,625	-	-	222,018	189,625	17.08%
Unrestricted state grants	1,274,707	1,093,651	-	-	1,274,707	1,093,651	16.56%
Unrestricted investment earnings	2,654	2,135	2	1	2,656	2,136	24.34%
Other general revenues	20,295	21,755	499	389	20,794	22,144	-6.10%
Total revenues	<u>3,471,263</u>	<u>3,260,539</u>	<u>139,615</u>	<u>135,506</u>	<u>3,610,878</u>	<u>3,396,045</u>	<u>6.33%</u>
Program expenses:							
Instructional	2,070,833	2,013,854	-	-	2,070,833	2,013,854	2.83%
Support services	860,079	1,063,966	503	566	860,582	1,064,532	-19.16%
Non-instructional programs	-	-	133,245	132,956	133,245	132,956	0.22%
Other expenses	173,427	169,974	-	-	173,427	169,974	2.03%
Total expenses	<u>3,104,339</u>	<u>3,247,794</u>	<u>133,748</u>	<u>133,522</u>	<u>3,238,087</u>	<u>3,381,316</u>	<u>-4.24%</u>
Change in net position	366,924	12,745	5,867	1,984	372,791	14,729	-2431.00%
Net position beginning of year, as restated	<u>1,100,659</u>	<u>2,226,393</u>	<u>(7,932)</u>	<u>20,594</u>	<u>1,092,727</u>	<u>2,246,987</u>	<u>-51.37%</u>
Net position end of year	<u>\$ 1,467,583</u>	<u>2,239,138</u>	<u>(2,065)</u>	<u>22,578</u>	<u>1,465,518</u>	<u>2,261,716</u>	<u>-35.20%</u>

Property tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 77.80% of governmental activities revenues while charges for service and operating grants, contributions and restricted interest accounted for 99.64% of business type activities revenue.

The District's total revenues were \$3,610,878, of which \$3,471,263 was for governmental activities and \$139,615 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 6.33% increase in revenues and a 4.24% decrease in expenses. The increase in revenues is related to the increase in unrestricted state grants. The increase in expenses is related to decrease in support services.

### Governmental Activities

Revenues for governmental activities were \$3,471,263 and expenses were \$3,104,339.

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, 2015 compared to the year ended June 30, 2014.

	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not restated)	Change 2014-15	2015	2014 (Not restated)	Change 2014-15
Instruction	\$ 2,070,833	2,013,854	2.83%	1,462,506	1,405,785	4.03%
Support services	860,079	1,063,966	-19.16%	816,517	989,095	-17.45%
Other expenses	173,427	169,974	2.03%	77,648	78,307	-0.84%
Totals	\$ 3,104,339	3,247,794	-4.42%	2,356,671	2,473,187	-4.71%

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$471,480.
- Federal and state governments along with local sources subsidized certain programs with grants and contributions totaling \$276,188.
- The net cost of governmental activities was financed with \$1,086,923 in property tax, \$116,998 of income surtax, \$222,018 in statewide sales, services and use tax, \$1,274,707 in unrestricted state grants, \$2,654 in interest income and \$20,295 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$139,615 and expenses were \$133,748. 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, investment income and other general revenues.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,114,008; above last year's ending fund balances of \$814,047. The primary reason for the increase in combined fund balances in fiscal 2015 is due to the increase in the Capital Project's balance.

### Governmental Fund Highlights

- The District's General Fund balance increase from \$257,583 at June 30, 2014 to \$476,672 at June 30, 2015. The increase in the General Fund balance is primarily due the decrease in instruction expenses.

- 
- The District's Management Levy Fund balance increased from \$188,161 at June 30, 2014 to \$203,008 at June 30, 2015. As compared to the previous year, revenues decreased and expenditures decreased. This resulted in the increase in fund balance of \$14,847 or 7.89% compared to the prior year.
  - The District's Capital Projects Fund balance increased from \$270,467 at June 30, 2014 to \$321,481 at June 30, 2015. This represents an increase of \$51,014 or 18.86% compared to the prior year.

### **Proprietary Funds Highlights**

The School Nutrition Fund net position increased from a deficit \$7,932 at June 30, 2014 to a deficit \$2,065 at June 30, 2015, an increase of 73.97%.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$115,958 more than budgeted revenues, a variance of 3.32%. The most significant variance resulted from the District receiving more in state sources than originally anticipated.

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.

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

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

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2015, the District had invested \$1,935,579, 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 \$190,881.

The original cost of the District's capital assets was \$4,444,432. Governmental funds account for \$4,365,870 with the remainder of \$78,562 in the School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$39,959 at June 30, 2015, compared to \$0 reported at June 30, 2014. The increase was primarily due to starting construction on a HVAC project.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014	2015	2014	2015	2014	2014-15
Land	\$ 4,812	4,812	-	-	4,812	4,812	0.00%
Buildings	1,491,085	1,551,621	-	-	1,491,085	1,551,621	-3.90%
Land improvements	181,192	192,310	-	-	181,192	192,310	-5.78%
Machinery and equipment	195,437	138,782	23,094	26,184	218,531	164,966	32.47%
Construction in progress	39,959	-	-	-	39,959	-	100.00%
Total	\$ 1,912,485	1,887,525	23,094	26,184	1,935,579	1,913,709	1.14%

### Long-Term Debt

At June 30, 2015, the District had \$1,514,664 in total long-term debt outstanding. This represents an increase of 290.17% 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.

At June 30, 2015, the District had outstanding Qualified School Construction Bonds payable of \$250,000.

At June 30, 2015, the District had an outstanding lighting lease payable on lighting equipment of \$74,343.

At June 30, 2015, the District had an outstanding bus lease payable of \$45,004.

The District had a net OPEB liability of \$220,917 at June 30, 2015.

The District had total outstanding net pension liability of \$924,400 at June 30, 2015. \$900,274 of this total is included in the District's governmental activities while \$24,126 is included in the business type activity.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-15
Qualified school construction bonds	\$ 250,000	250,000	-	-	250,000	250,000	0.00%
Lighting lease	74,343	82,837	-	-	74,343	82,837	-10.25%
Bus lease	45,004	55,365	-	-	45,004	55,365	-18.71%
Net pension liability	900,274	-	24,126	-	924,400	-	100.00%
Net OPEB liability	220,917	181,579	-	-	220,917	181,579	21.66%
Total	\$ 1,490,538	569,781	24,126	-	1,514,664	388,202	290.17%

### 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 spending authority is trending downward.
- Enrollment is declining.
- A local plant is closing that may cause further decline in enrollment.

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## **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 Darla Hetzel, Business Manager, Essex Community School District, 111 Forbes Street, Essex, Iowa, 51638.

BASIC FINANCIAL STATEMENTS

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2015

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,318,006	12,765	1,330,771
Receivables:			
Property tax:			
Delinquent	15,040	-	15,040
Succeeding year	1,255,742	-	1,255,742
Income surtax	111,726	-	111,726
Accounts	7,816	1,217	9,033
Internal balances	11,600	(11,600)	-
Due from other governments	120,713	4,692	125,405
Inventories	-	1,370	1,370
Capital assets, net of accumulated depreciation	1,912,485	23,094	1,935,579
<b>Total assets</b>	<b>4,753,128</b>	<b>31,538</b>	<b>4,784,666</b>
<b>Deferred Outflows of Resources</b>			
Net pension related deferred outflows	175,214	5,108	180,322
<b>Liabilities</b>			
Accounts payable	137,001	-	137,001
Salaries and benefits payable	221,466	3,569	225,035
Advances for student fees	700	-	700
Accrued interest payable	2,438	-	2,438
Unearned revenue	-	1,559	1,559
Long-term liabilities:			
Portion due within one year:			
Lighting lease payable	8,969	-	8,969
Bus lease payable	45,004	-	45,004
Portion due after one year:			
Lighting lease payable	65,374	-	65,374
Qualified school construction bonds payable	250,000	-	250,000
Net pension liability	900,274	24,126	924,400
Net OPEB liability	220,917	-	220,917
<b>Total liabilities</b>	<b>1,852,143</b>	<b>29,254</b>	<b>1,881,397</b>
<b>Deferred Inflows of Resources</b>			
Net pension related deferred inflows	352,874	9,457	362,331
Unavailable property tax revenue	1,255,742	-	1,255,742
<b>Total deferred inflows of resources</b>	<b>1,608,616</b>	<b>9,457</b>	<b>1,618,073</b>
<b>Net position</b>			
Net investment in capital assets	1,543,138	23,094	1,566,232
Restricted for:			
Categorical funding	57,905	-	57,905
Management levy purposes	203,008	-	203,008
Student activities	39,625	-	39,625
Debt service	70,784	-	70,784
School infrastructure	314,868	-	314,868
Physical plant and equipment	6,613	-	6,613
Unrestricted	(768,358)	(25,159)	(793,517)
<b>Total net position</b>	<b>\$ 1,467,583</b>	<b>(2,065)</b>	<b>1,465,518</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 1,387,106	265,786	80,856	(1,040,464)	-	(1,040,464)
Special	371,833	54,736	13,585	(303,512)	-	(303,512)
Other	311,894	122,034	71,330	(118,530)	-	(118,530)
	<u>2,070,833</u>	<u>442,556</u>	<u>165,771</u>	<u>(1,462,506)</u>	<u>-</u>	<u>(1,462,506)</u>
Support services:						
Student	83,645	-	-	(83,645)	-	(83,645)
Instructional staff	91,238	-	13,718	(77,520)	-	(77,520)
Administration	381,503	28,924	-	(352,579)	-	(352,579)
Operation and maintenance of plant	158,324	-	-	(158,324)	-	(158,324)
Transportation	145,369	-	920	(144,449)	-	(144,449)
	<u>860,079</u>	<u>28,924</u>	<u>14,638</u>	<u>(816,517)</u>	<u>-</u>	<u>(816,517)</u>
Long-term debt interest	5,994	-	-	(5,994)	-	(5,994)
Other expenditures:						
AEA flowthrough	95,779	-	95,779	-	-	-
Depreciation(unallocated)*	71,654	-	-	(71,654)	-	(71,654)
	<u>167,433</u>	<u>-</u>	<u>95,779</u>	<u>(71,654)</u>	<u>-</u>	<u>(71,654)</u>
Total governmental activities	<u>3,104,339</u>	<u>471,480</u>	<u>276,188</u>	<u>(2,356,671)</u>	<u>-</u>	<u>(2,356,671)</u>
Business type activities:						
Support services:						
Student	503	-	-	-	(503)	(503)
Non-instructional programs:						
Food service operations	133,245	63,000	76,114	-	5,869	5,869
Total business type activities	<u>133,748</u>	<u>63,000</u>	<u>76,114</u>	<u>-</u>	<u>5,366</u>	<u>5,366</u>
Total	<u>\$ 3,238,087</u>	<u>534,480</u>	<u>352,302</u>	<u>(2,356,671)</u>	<u>5,366</u>	<u>(2,351,305)</u>
<b>General Revenues:</b>						
General revenues:						
Property tax for:						
General purposes				\$ 1,059,746	-	1,059,746
Capital outlay				27,177	-	27,177
Income surtax				116,998	-	116,998
Statewide sales, services and use tax				222,018	-	222,018
Unrestricted state grants				1,274,707	-	1,274,707
Unrestricted investment earnings				2,654	2	2,656
Other				20,295	499	20,794
Total general revenues				<u>2,723,595</u>	<u>501</u>	<u>2,724,096</u>
Change in net position				366,924	5,867	372,791
Net position beginning of year, as restated				<u>1,100,659</u>	<u>(7,932)</u>	<u>1,092,727</u>
Net position end of year				<u>\$ 1,467,583</u>	<u>(2,065)</u>	<u>1,465,518</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Management Levy	Capital Projects	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 681,530	197,255	326,386	112,835	1,318,006
Receivables:					
Property tax					
Delinquent	13,414	1,248	378	-	15,040
Succeeding year	1,030,421	83,000	142,321	-	1,255,742
Income surtax	111,726	-	-	-	111,726
Accounts	2,172	5,416	-	228	7,816
Due from other funds	11,600	-	-	-	11,600
Due from other governments	85,881	-	34,832	-	120,713
<b>Total assets</b>	<b>\$ 1,936,744</b>	<b>286,919</b>	<b>503,917</b>	<b>113,063</b>	<b>2,840,643</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 95,759	911	40,115	216	137,001
Salaries and benefits payable	221,466	-	-	-	221,466
Advances for student fees	700	-	-	-	700
<b>Total liabilities</b>	<b>317,925</b>	<b>911</b>	<b>40,115</b>	<b>216</b>	<b>359,167</b>
Deferred inflows of resources:					
Unavailable revenues:					
Succeeding year property tax	1,030,421	83,000	142,321	-	1,255,742
Income surtax	111,726	-	-	-	111,726
<b>Total deferred inflows of resources</b>	<b>1,142,147</b>	<b>83,000</b>	<b>142,321</b>	<b>-</b>	<b>1,367,468</b>
Fund balances:					
Restricted for:					
Categorical funding	57,905	-	-	-	57,905
Management levy purposes	-	203,008	-	-	203,008
Student activities	-	-	-	39,625	39,625
Debt service	-	-	-	73,222	73,222
School infrastructure	-	-	314,868	-	314,868
Physical plant and equipment	-	-	6,613	-	6,613
Unassigned	418,767	-	-	-	418,767
<b>Total fund balances</b>	<b>476,672</b>	<b>203,008</b>	<b>321,481</b>	<b>112,847</b>	<b>1,114,008</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,936,744</b>	<b>286,919</b>	<b>503,917</b>	<b>113,063</b>	<b>2,840,643</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET POSITION  
 JUNE 30, 2015

<b>Total fund balances of governmental funds(page 20)</b>	\$	1,114,008
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		1,912,485
Income surtax is not yet available to pay current year expenditures and, therefore, is recognized as deferred inflows of resources in the governmental funds.		111,726
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.		(2,438)
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 175,214	
Deferred inflows of resources	<u>(352,874)</u>	(177,660)
Long-term liabilities, including qualified school construction bonds payable, lighting lease payable, bus lease payable, net pension liability 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>(1,490,538)</u>
<b>Net position of governmental activities(page 18)</b>	<b>\$</b>	<b><u><u>1,467,583</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2015

	General	Mangement Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,084,630	90,525	27,177	-	1,202,332
Tuition	256,474	-	-	-	256,474
Other	114,112	8,167	10,771	123,758	256,808
State sources	1,465,928	-	222,018	-	1,687,946
Federal sources	66,113	-	-	-	66,113
Total revenues	<u>2,987,257</u>	<u>98,692</u>	<u>259,966</u>	<u>123,758</u>	<u>3,469,673</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,361,456	55,175	-	-	1,416,631
Special	360,148	-	-	-	360,148
Other	192,888	-	-	122,189	315,077
	<u>1,914,492</u>	<u>55,175</u>	<u>-</u>	<u>122,189</u>	<u>2,091,856</u>
Support services:					
Student	78,291	-	-	-	78,291
Instructional staff	31,849	-	57,590	-	89,439
Administration	393,033	6,645	-	-	399,678
Operation and maintenance of plant	138,513	15,885	19	-	154,417
Transportation	116,501	6,140	-	-	122,641
	<u>758,187</u>	<u>28,670</u>	<u>57,609</u>	<u>-</u>	<u>844,466</u>
Capital outlay	-	-	112,701	-	112,701
Long-term debt:					
Principal	-	-	-	18,854	18,854
Interest and fiscal charges	-	-	-	6,346	6,346
	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,200</u>	<u>25,200</u>
Other expenditures:					
AEA flowthrough	95,779	-	-	-	95,779
	<u>95,779</u>	<u>-</u>	<u>112,701</u>	<u>25,200</u>	<u>233,680</u>
Total expenditures	<u>2,768,458</u>	<u>83,845</u>	<u>170,310</u>	<u>147,389</u>	<u>3,170,002</u>
Excess(Deficiency) of revenues □ over(under) expenditure/expenses	218,799	14,847	89,656	(23,631)	299,671
Other financing sources(uses):					
Transfer in	-	-	-	38,642	38,642
Transfer out	-	-	(38,642)	-	(38,642)
Proceeds from sale of equipment	290	-	-	-	290
Total other financing sources(uses)	<u>290</u>	<u>-</u>	<u>(38,642)</u>	<u>38,642</u>	<u>290</u>
Change in fund balances	219,089	14,847	51,014	15,011	299,961
Fund balances beginning of year	<u>257,583</u>	<u>188,161</u>	<u>270,467</u>	<u>97,836</u>	<u>814,047</u>
Fund balances end of year	<u>\$ 476,672</u>	<u>203,008</u>	<u>321,481</u>	<u>112,847</u>	<u>1,114,008</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2015

**Change in fund balances - total governmental funds(page 22)** \$ 299,961

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

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

Capital outlay	\$ 212,752	
Depreciation expense	<u>(187,791)</u>	24,961

Income surtax not collected for several months after year end is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds. 1,589

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.

Pension expense	(65,154)	
Other postemployment benefits	<u>(39,338)</u>	(104,492)

Repayments of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year repayments are as follows: 18,854

The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position. 125,699

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 352

**Change in net position of governmental activities(page 19)** \$ 366,924

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
NONMAJOR PROPRIETARY FUND  
JUNE 30, 2015

	Enterprise: School Nutrition
<b>Assets</b>	
Current assets:	
Cash and pooled investments	\$ 12,765
Accounts receivable	1,217
Due from other governments	4,692
Inventories	1,370
	20,044
Noncurrent assets:	
Capital assets, net of accumulated depreciation	23,094
<b>Total assets</b>	43,138
 <b>Deferred Outflows of Resources</b>	
Pension related deferred outflows	5,108
 <b>Liabilities</b>	
Current liabilities:	
Due to other funds	11,600
Salaries and benefits payable	3,569
Unearned revenue	1,559
<b>Total current liabilities</b>	16,728
 <b>Noncurrent liabilities:</b>	
Net Pension liability	24,126
<b>Total Liabilities</b>	40,854
 <b>Deferred Inflows of Resources</b>	
Pension related deferred inflows	9,457
 <b>Net position</b>	
Net investment in capital assets	23,094
Unrestricted	(25,159)
<b>Total net position</b>	\$ (2,065)

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 NONMAJOR PROPRIETARY FUND  
 YEAR ENDED JUNE 30, 2015

	Enterprise: School Nutrition
Operating revenues:	
Local sources:	
Charges for service	\$ 63,000
Miscellaneous	499
Total operating revenues	63,499
Operating expenses:	
Support services:	
Services	503
Non-instructional programs:	
Food service operations:	
Salaries	43,505
Benefits	13,196
Supplies	73,383
Depreciation	3,090
Other	71
	133,245
Total operating expenses	133,748
Operating loss	(70,249)
Non-operating revenues:	
State sources	1,060
Federal sources	75,054
Interest income	2
Total non-operating revenues	76,116
Change in net position	5,867
Net position beginning of year, as restated	(7,932)
Net position end of year	\$ (2,065)

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
NONMAJOR PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2015

	<u>Enterprise:</u> <u>School</u> <u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 62,802
Cash received from miscellaneous operating activities	499
Cash payments to employees for services	(57,472)
Cash payments to suppliers for goods or services	(67,749)
Net cash used by operating activities	<u>(61,920)</u>
Cash flows from non-capital financing activities:	
State grants received	1,060
Federal grants received	65,329
Net cash provided by non-capital financing activities	<u>66,389</u>
Cash flows from investing activities:	
Interest on investments	<u>2</u>
Net increase in cash and cash equivalents	4,471
Cash and cash equivalents at beginning of year	<u>8,294</u>
Cash and cash equivalents at end of year	<u>\$ 12,765</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (70,249)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	7,973
Depreciation	3,090
Decrease in inventories	454
Decrease in accounts receivable	317
Decrease in accounts payable	(2,219)
Increase in salaries and benefits payable	1,264
Decrease in unearned revenue	(515)
Decrease in net pension liability	(9,939)
Increase in deferred outflows of resources	(1,553)
Increase in deferred inflows of resources	9,457
Net cash used by operating activities	<u>\$ (61,920)</u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2015, the District received \$7,973 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2015

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Cash and pooled investments	\$ 43,007	2,861
<b>Liabilities</b>		
Due to other groups	-	2,861
Total liabilities	-	2,861
<b>Net position</b>		
Held in trust for scholarships	\$ 43,007	-

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2015

	<u>Private Purpose Trust Scholarship</u>
Additions	
Local sources:	
Gifts and contributions	\$ 515
Interest income	761
Total additions	<u>1,276</u>
Deductions	
Instruction:	
Other:	
Scholarships awarded	<u>2,250</u>
Change in net position	(974)
Net position beginning of year	<u>43,981</u>
Net position end of year	<u>\$ 43,007</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

**(1) Summary of Significant Accounting Policies**

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

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

*Net investment in capitals assets* 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. Enabling legislation did not result in any restricted net position.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

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

The District reports the following nonmajor proprietary fund:

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

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

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

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

### **C. Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

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

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

#### **D. Assets, Deferred Outflows of Resources Liabilities, Deferred Inflows of Resources and Fund Equity**

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and 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, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2014.

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

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

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

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

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

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

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

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

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

are reflected on the Statement of Net Position in the Proprietary Funds.

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

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. 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 inflows of resources 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 inflows of resources consist of property tax receivable and income surtax receivable not collected within sixty days after year end.

Deferred inflows of resources 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 and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

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

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

Unassigned - All amounts not included in other spendable classifications.

## **E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, expenditures exceeded the amounts budgeted in the instruction functional area.

### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2015 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, 2014, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$615,447 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

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

The detail of interfund receivables and payables at June 30, 2015 is as follows:

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

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

**(4) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

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

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

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 4,812	-	-	4,812
Construction in Progress	-	39,959	-	39,959
Total capital assets not being depreciated	4,812	39,959	-	44,771
Capital assets being depreciated:				
Buildings	2,908,824	-	-	2,908,824
Land improvements	326,403	-	-	326,403
Machinery and equipment	913,080	172,792	-	1,085,872
Total capital assets being depreciated	4,148,307	172,792	-	4,321,099
Less accumulated depreciation for:				
Buildings	1,357,203	60,536	-	1,417,739
Land improvements	134,093	11,118	-	145,211
Machinery and equipment	774,298	116,137	-	890,435
Total accumulated depreciation	2,265,594	187,791	-	2,453,385
Total capital assets being depreciated, net	1,882,713	(14,999)	-	1,867,714
Governmental activities capital assets, net	\$ 1,887,525	24,960	-	1,912,485
<b>Business type activities:</b>				
Machinery and equipment	\$ 78,562	-	-	78,562
Less accumulated depreciation	52,378	3,090	-	55,468
Business type activities capital assets, net	\$ 26,184	(3,090)	-	23,094

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 91,282
Support services:	
Student	3,131
Operation and maintenance of plant	1,147
Transportation	20,577
	<u>116,137</u>
Unallocated depreciation	<u>71,654</u>
Total governmental activities depreciation expense	<u>\$ 187,791</u>
Business type activities:	
Food service operations	<u>\$ 3,090</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2015 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
Qualified school construction bonds	\$ 250,000	-	-	250,000	-
Lighting lease	82,837	-	8,494	74,343	8,969
Bus lease	55,365	-	10,361	45,004	45,004
Net Pension Liability	-	1,271,126	370,852	900,274	-
Net OPEB liability	181,579	39,338	-	220,917	-
Total	\$ 569,781	1,310,464	389,707	1,490,538	53,973
<b>Business type activities:</b>					
Net Pension Liability	\$ -	34,065	9,939	24,126	-

Qualified School Construction Bonds Payable

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

Bus Lease Payable

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

Year Ending June 30,	Bus Lease of December 15, 2012				
	Interest Rates	Principal	Interest	Total	
2016	3.10 %	\$ 45,004	1,395	46,399	

Lighting Lease Payable

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

Year Ending June 30,	Lighting Lease of January 13, 2012				
	Interest Rates	Principal	Interest	Total	
2016	5.59%	\$ 8,969	4,155	13,124	
2017	5.59	9,470	3,653	13,123	
2018	5.59	9,999	3,124	13,123	
2019	5.59	10,558	2,565	13,123	
2020	5.59	11,148	1,975	13,123	
2021-2022	5.59	24,199	2,047	26,246	
Total		\$ 74,343	17,519	91,862	

### Termination Benefits (Early Retirement)

The District offers a voluntary early retirement plan to its certified employees. The plan is offered at the Board's discretion on a year to year basis. Eligible employees must be a tenured contracted teacher, must have completed fifteen years of continuous service to the District and be at least age fifty-five. Employees must complete an application, which is subject to approval by the Board of Education. The early retirement incentive consists of the District paying health insurance premiums until the retiree reaches age 65.

Actual early retirement benefits paid during the year ended June 30, 2015, totaled \$31,308. The remaining \$25,249 is now accounted for as an explicit subsidy under GASB Statement No. 45 Accounting and financial Reporting by Employers for Postemployment Benefits other than Pensions and included in the District's net OPEB liability.

### **(7) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of

the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$129,480.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$924,400 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was .022841 percent, which was an decrease of .000211 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$66,900. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,046	\$ -
Changes of assumptions	40,796	-
Net difference between projected and actual earnings on pension plan investments	-	352,539
Changes in proportion and differences between District contributions and proportionate share of contributions	-	9,792
District contributions subsequent to the measurement date	129,480	-
<b>Total</b>	<b>\$ 180,322</b>	<b>\$ 362,331</b>

\$129,480 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
June 30,	
2016	\$ (78,544)
2017	(78,544)
2018	(78,544)
2019	(78,544)
2020	2,687
	<u>\$ (311,489)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$ 1,746,627	\$ 924,400	\$ 230,354

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

Payables to the Pension Plan - At June 30, 2015, the District reported payables to the defined benefit pension plan of \$14,890 for legally required employer contributions and \$9,921 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**(8) Other Postemployment Benefits (OPEB)**

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

The medical benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit rate subsidy and an OPEB liability. The District also offers an Early Retirement incentive consisting of the District paying successful candidates health insurance premiums until the retiree reaches the age of sixty five. This benefit results in an explicit subsidy that is included in the 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, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 78,816
Interest on net OPEB obligation	4,539
Adjustment to annual required contribution	(21,473)
Annual OPEB cost	<u>61,882</u>
Contributions made	<u>(22,544)</u>
Increase in net OPEB obligation	39,338
Net OPEB obligation beginning of year	<u>181,579</u>
Net OPEB obligation end of year	<u>\$ 220,917</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, 2015.

For the year ended June 30, 2015, the District contributed \$22,544 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015 are summarized as follows:

For Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$80,011	54.56%	\$145,538
2014	\$71,208	49.39%	\$181,579
2015	\$61,882	36.43%	\$220,917

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$312,167, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$312,167. The covered payroll (annual payroll of active employees covered by the plan) was \$972,047 and the ratio of the UAAL to covered payroll was 32.11%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, 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 entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual health cost trend is 6%.

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

**(9) Risk Management**

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

The District’s contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2014 were \$351,706.

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

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District’s actual amount for this purpose totaled \$95,779 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(11) Categorical Funding**

The District’s ending restricted balance for categorical funding at June 30, 2015 is comprised of the following programs:

Programs	Amount
Gifted and Talented	\$ 13,485
Dropout and Dropout Prevention	9,328
Beginning Teacher Mentoring and Induction	312
Teacher Salary Supplement	37
Four-Year Old preschool State Aid	4,695
Successful Progression for Early Readers	24,630
Teacher Leadership Grants	5,418
Total	\$ 57,905

**(12) Deficit Unrestricted Net Position**

The District had deficit unrestricted net positions in the Governmental funds of \$768,358 and in The School Nutrition Fund of \$25,159. The District also had a deficit total net position in The School Nutrition Fund of \$2,065 The primary reason for the deficit net position is due to the implementation of GASB Statement No. 68 and No. 71 during the year.

**(13) Construction Commitment**

The District entered into a contact totaling \$56,875 for the architecture plans for a HVAC system. As of June 30, 2015 costs of \$39,813 had been incurred against the contract. The balance of \$17,063 remaining at June 30, 2015 will be paid as work on the project progress.

**(14) Reconciliation of Governmental Fund Balances to Net Position**

Reconciliation of certain governmental fund balances to net position is the following:

	Net investment in capital assets	Debt Service	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	73,222	418,767
Capital assets, net of accumulated depreciation	1,912,485	-	-
Qualified school construction bonds payable	(250,000)	-	-
Bus Lease	(45,004)	-	-
Lighting Lease	(74,343)	-	-
Accrued interest payable	-	(2,438)	-
Income surtax	-	-	111,726
Net OPEB liability	-	-	(220,917)
Net pension liability	-	-	(900,274)
Deferred outflows of resources	-	-	175,214
Deferred inflows of resources	-	-	(352,874)
Net position (Exhibit A)	<u>\$ 1,543,138</u>	<u>70,784</u>	<u>(768,358)</u>

**(15) Accounting Change/Restatement Note**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business Type Activities
Net position June 30, 2014, as previously reported	\$ 2,239,138	\$ 22,578
Net pension liability at June 30, 2014	(1,271,126)	(34,065)
Deferred outflows of resources related to the contributions made after the June 30, 2013 measurement date	132,647	3,555
Net position July 1, 2014, as restated	<u>\$ 1,100,659</u>	<u>\$ (7,932)</u>

**(16) Budget Overexpenditures**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2015 expenditures in the instruction functional area exceeded budgeted amounts.

ESSEX COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2015

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Fund Actual		Original	Final	
Revenues:						
Local sources	\$ 1,715,614	63,501	1,779,115	1,834,280	1,834,280	(55,165)
Intermediate sources	-	-	-	16,500	16,500	(16,500)
State sources	1,687,946	1,060	1,689,006	1,548,550	1,548,550	140,456
Federal sources	66,113	75,054	141,167	94,000	94,000	47,167
Total revenues	3,469,673	139,615	3,609,288	3,493,330	3,493,330	115,958
Expenditures/Expenses:						
Instruction	2,091,856	-	2,091,856	1,750,000	1,750,000	(341,856)
Support services	844,466	503	844,969	1,388,350	1,388,350	543,381
Non-instructional programs	-	133,245	133,245	142,550	142,550	9,305
Other expenditures	233,680	-	233,680	269,073	269,073	35,393
Total expenditures/expenses	3,170,002	133,748	3,303,750	3,549,973	3,549,973	246,223
Excess(Deficiency) of revenues over (under) expenditures/expenses	299,671	5,867	305,538	(56,643)	(56,643)	362,181
Other financing sources, net	290	-	290	-	-	290
Excess(Deficiency) of revenues and other financing sources over (under) expenditures/expenses	299,961	5,867	305,828	(56,643)	(56,643)	362,471
Balances beginning of year, as restated	814,047	(7,932)	806,115	681,199	681,199	124,916
Balances end of year	\$ 1,114,008	(2,065)	1,111,943	624,556	624,556	487,387

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2015

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

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

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

During the year ended June 30, 2015, District expenditures exceeded the amounts budgeted in the instruction functional area.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
 LAST FISCAL YEAR\*  
 REQUIRED SUPPLEMENTARY INFORMATION

	2015
District's proportion of the net pension liability	0.022841%
District's proportionate share of the net pension liability	\$ 924,000
District's covered-employee payroll	\$ 1,449,944
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	63.73%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

\* The amount presented for each fiscal year were determined as of June 30.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**ESSEX COMMUNITY SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**LAST 10 FISCAL YEARS**  
**REQUIRED SUPPLEMENTARY INFORMATION**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	\$ 129,480	136,202	129,262	119,524	99,903	94,154	92,780	85,914	74,509	68,875
Contributions in relation to the statutorily required contribution	<u>(129,480)</u>	<u>(136,202)</u>	<u>(129,262)</u>	<u>(119,524)</u>	<u>(99,903)</u>	<u>(94,154)</u>	<u>(92,780)</u>	<u>(85,914)</u>	<u>(74,509)</u>	<u>(68,875)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 1,449,944	1,525,218	1,490,911	1,481,090	1,437,453	1,354,734	1,461,102	1,420,066	1,295,809	1,197,826
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.95%	6.35%	6.05%	5.75%	5.75%

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

ESSEX COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2011	July 1, 2009	-	490,695	490,695	0.00%	1,208,653	40.60%
2012	July 1, 2009	-	428,899	428,899	0.00%	1,131,173	37.92%
2013	July 1, 2012	-	395,114	395,114	0.00%	1,058,198	37.34%
2014	July 1, 2012	-	360,710	360,710	0.00%	1,303,939	27.66%
2015	July 1, 2012	-	312,167	312,167	0.00%	972,047	32.11%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	Special Revenue		
	Student Activity	Debt Service	Total
<b>Assets</b>			
Cash and pooled investments	\$ 39,613	73,222	112,835
Accounts receivable	228	-	228
<b>Total assets</b>	<b>\$ 39,841</b>	<b>73,222</b>	<b>113,063</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 216	-	216
Fund balances:			
Restricted for:			
Student activities	39,625	-	39,625
Debt service	-	73,222	73,222
Total fund balances	39,625	73,222	112,847
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 39,841</b>	<b>73,222</b>	<b>113,063</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2015

	Special Revenue		
	Student Activity	Debt Service	Total
Revenues:			
Local sources:			
Other	\$ 121,667	2,091	123,758
Expenditures:			
Current:			
Instruction:			
Other	122,189	-	122,189
Long-term debt:			
Principal	-	18,854	18,854
Interest and fiscal charges	-	6,346	6,346
Total expenditures	122,189	25,200	147,389
Deficiency of revenues under expenditures	(522)	(23,109)	(23,631)
Other financing sources:			
Transfer in	-	38,642	38,642
Change in fund balances	(522)	15,533	15,011
Fund balances beginning of year	40,147	57,689	97,836
Fund balances end of year	\$ 39,625	73,222	112,847

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 320,151	6,235	326,386
Receivables:			
Property tax:			
Delinquent	-	378	378
Succeeding year	-	142,321	142,321
Due from other governments	34,832	-	34,832
<b>Total assets</b>	<b>\$ 354,983</b>	<b>148,934</b>	<b>503,917</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 40,115	-	40,115
Deferred inflows of resources:			
Unavailable revenues:			
Succeeding year property tax	-	142,321	142,321
Fund balances:			
Restricted for:			
School infrastructure	314,868	-	314,868
Physical plant and equipment	-	6,613	6,613
Total fund balances	314,868	6,613	321,481
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 354,983</b>	<b>148,934</b>	<b>503,917</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ -	27,177	27,177
Other	7	10,764	10,771
State sources	222,018	-	222,018
Total revenues	222,025	37,941	259,966
Expenditures:			
Support services:			
Instructional staff	5,228	52,362	57,590
Operation and maintenance of plant	-	19	19
Capital outlay	74,259	38,442	112,701
Total expenditures	79,487	90,823	170,310
Excess (Deficiency) of revenues over(under) expenditures	142,538	(52,882)	89,656
Other financing uses:			
Transfer out	(38,642)	-	(38,642)
Change in fund balances	103,896	(52,882)	51,014
Fund balances beginning of year	210,972	59,495	270,467
Fund balances end of year	\$ 314,868	6,613	321,481

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2015

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 3,410	-	-	3,410
Instrumental music	28	189	217	-
Athletics	10,656	51,424	50,748	11,332
Vocal music	-	820	-	820
Class of 2014	665	-	665	-
Class of 2015	2,455	15,656	16,102	2,009
Class of 2016	144	16,855	11,122	5,877
Class of 2017	39	125	-	164
Class of 2018	85	50	-	135
Class of 2019	-	100	-	100
Class of 2020	-	30	-	30
Pep club	597	4,663	4,847	413
School booster fund balance	11,090	22,799	26,524	7,365
E-Stars	662	525	514	673
Safety patrol	17	-	-	17
Annual	6,719	4,540	6,803	4,456
National honor society	141	441	416	166
Concession equipment	709	505	675	539
Project class	123	-	81	42
Student council	2,607	2,945	3,475	2,077
Total	\$ 40,147	121,667	122,189	39,625

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2015

	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
<b>Assets</b>					
Cash and pooled investments	\$ 21,122	19,905	483	1,497	43,007
<b>Liabilities</b>	-	-	-	-	-
<b>Net Position</b>					
Held in trust for scholarships	\$ 21,122	19,905	483	1,497	43,007

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2015

	Claire McKinney Trust	Saunders Scholarship	Joan Hamilton Scholarship	Danielle Wallin Scholarship	ES&C Scholarship	Total
Additions:						
Local sources:						
Gifts and contributions	\$ 10	-	-	-	505	515
Interest income	-	131	130	-	500	761
Total additions	10	131	130	-	1,005	1,276
Deductions:						
Instruction:						
Other:						
Scholarships awarded	1,000	250	-	1,000	-	2,250
Change in net position	(990)	(119)	130	(1,000)	1,005	(974)
Net position beginning of year	990	21,241	19,775	1,483	492	43,981
Net position end of year	\$ -	21,122	19,905	483	1,497	43,007

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ESSEX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2015

	Beginning Balance	Increases	Decreases	Ending Balance
<b>JUST HELP KIDS</b>				
Assets:				
Cash and other investments	\$ 795	-	157	638
Liabilities:				
Accounts payable	\$ 92	-	92	-
Due to other groups	703	-	65	638
Total liabilities	\$ 795	-	157	638
<b>NURSE FUND</b>				
Assets:				
Cash and other investments	\$ 1,762	969	508	2,223
Liabilities:				
Due to other groups	\$ 1,762	969	508	2,223
<b>TOTAL</b>				
Cash and other investments	\$ 2,557	969	665	2,861
Liabilities:				
Accounts payable	\$ 92	-	92	-
Due to other groups	2,465	969	573	2,861
Total liabilities	\$ 2,557	969	665	2,861

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis									
	Years Ended June 30									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues:										
Local sources:										
Local tax	\$ 1,202,332	1,178,001	1,258,839	1,298,945	1,220,074	1,182,511	1,161,837	1,055,988	1,082,481	1,088,623
Tuition	256,474	261,176	268,192	251,482	190,737	137,499	144,879	172,999	169,071	133,075
Other	256,808	299,888	251,696	270,317	202,236	139,083	186,817	188,003	216,450	254,312
Intermediate sources	-	30,703	-	-	-	-	2,000	2,459	-	-
State sources	1,687,946	1,426,609	1,272,273	1,264,082	1,180,368	1,031,916	1,423,390	1,354,443	1,281,715	1,121,983
Federal sources	66,113	63,397	71,118	79,162	202,185	227,646	121,276	79,855	88,941	96,413
Total	\$ 3,469,673	3,259,774	3,122,118	3,163,988	2,995,600	2,718,655	3,040,199	2,853,747	2,838,658	2,694,406
Expenditures:										
Instruction:										
Regular	\$ 1,416,631	1,422,941	1,494,713	1,320,668	1,253,384	1,238,190	1,422,297	1,360,453	1,189,956	1,117,705
Special	360,148	315,648	260,066	252,318	253,096	229,700	218,744	189,187	139,147	134,904
Other	315,077	329,460	276,741	346,479	279,417	275,431	184,576	186,324	247,660	245,153
Support services:										
Student	78,291	70,437	68,902	62,830	39,006	68,166	91,984	90,473	82,955	69,713
Instructional staff	89,439	133,845	80,626	121,845	112,915	52,774	53,447	59,012	86,405	51,631
Administration	399,678	417,680	407,190	372,221	353,477	369,840	358,304	339,246	340,349	303,500
Operation and maintenance of plant	154,417	211,990	214,121	295,120	199,914	182,072	195,571	208,738	213,757	184,159
Transportation	122,641	138,228	211,903	156,648	113,782	106,127	90,669	109,306	114,733	94,646
Capital outlay	112,701	108,103	85,373	338,086	161,552	374,723	196,903	47,542	71,672	154,069
Long-term debt:										
Principal	18,854	18,094	19,696	-	-	-	100,000	160,000	160,000	155,000
Interest and other charges	6,346	7,106	5,505	-	-	-	3,700	8,660	13,140	16,937
Other expenditures:										
AEA flowthrough	95,779	91,667	90,334	90,907	101,583	100,586	96,514	87,568	84,149	74,390
Total	\$ 3,170,002	3,265,199	3,215,170	3,357,122	2,868,126	2,997,609	3,012,709	2,846,509	2,743,923	2,601,807

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

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Essex Community School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 14, 2016.

**Internal Control Over Financial Reporting**

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

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

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-15 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 noted no deficiencies that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Essex Community School District's Responses to Findings**

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

### **Purpose of this Report**

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

April 14, 2016  
Newton, Iowa

ESSEX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted

**INTERNAL CONTROL DEFICIENCIES:**

I-A-15 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual may perform two or more functions in each of the following areas for the District.

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

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

Response - The District will review the internal controls in place and look into other alternatives to segregate duties any further.

Conclusion - Response Accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-15 Certified Budget - We noted during our audit that expenditures in the instruction functional area exceeded the amounts budgeted.

Recommendation - The 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 - The district will compare the four lines of expenditures with the certified budget early enough to amend the budget if needed in the future.

Conclusion - Response Accepted.

II-B-15 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

II-C-15 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-15 Business Transactions - Business transactions between the District and District employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Kay Petersen, Board Secretary Spouse owns Petersen Auto	Bus repair - per bid	\$ 13,743

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

II-E-15 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-15 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-15 Certified Enrollment - We noted variances in the basic enrollment data certified to the Department of Education was overstated by 2.00 students.

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

Response - The Iowa Department of Education and Department of Management have been notified, and the District will not count foreign exchange students on the certified enrollment.

Conclusion - Response Accepted.

II-H-15 Supplementary Weighting - We noted no supplementary weighting data certified to the Department of Education.

II-I-15 Deposits and Investments - We noted no instances of non-compliance with the deposit

and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-J-15 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-15 Categorical Funding - No instance were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-15 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2015, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 210,972
Revenues:		
Sales tax revenues	\$ 222,018	
Other local revenues	7	222,025
		432,997
Expenditures/transfer out:		
School infrastructure construction	74,259	
Other	5,228	
Transfer to other funds:		
Debt service fund	38,642	118,129
		314,868
Ending Balance		\$ 314,868

For the year ended June 30, 2015, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

- II-M-15 Financial Condition - We noted The District had deficit unrestricted net positions in the Governmental funds of \$768,358 and in The School Nutrition Fund of \$25,159. The District also had a deficit total net position in The School Nutrition Fund of \$2,065 The primary reason for the deficit net position is due to the implementation of GASB Statement No. 68 and No. 71 during the year.

Recommendation - The District should take steps to ensure the District's administration and Board of Education understand this accounting change/ restatement and how GASB Statements No. 68 and No. 71 will affect the District's financials moving forward

Response - The deficit in the Governmental and Nutrition Fund is due to the booking of net pension liability. The District will take steps to further the District's administration and Board of Education understanding of the accounting change and how GASB Statements No. 68 and 71 will affect the District's financials in the future

Conclusion - Response Accepted.

II-N-15 Scholarship Checks - We noted that scholarship checks written from the scholarship fund were made out to the student only.

Recommendation - Scholarship checks should be written to the School the student is attending and the student. A scholarship is tax free if you are a degree candidate and the award is used to pay for tuition and required fees, books, supplies and equipment. Any amounts used to pay for room and board and a stipend for living expenses is taxable. By issuing the check to the college or university the District can ensure that the scholarships are properly reported on the student's 1098T. If the District wishes to not make the checks payable to the school and the student, the District should issue a W-2 for the scholarship amount. The scholarship amount is subject to federal withholding but not Social Security or Medicare withholdings.

Response - The District will issue scholarship checks to the college the student is attending with the student's name and information included.

Conclusion - Response Accepted.