

IRON COUNTY SCHOOL DISTRICT
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012
WITH REPORT OF
CERTIFIED PUBLIC ACCOUNTANTS

IRON COUNTY SCHOOL DISTRICT

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Independent Auditors' Report

The Honorable Board of Education
Iron County School District
Cedar City, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iron County School District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Iron County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Iron County School District as of June 30, 2012, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012, on our consideration of Iron County 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



HintonBurdick, PLLC
St. George, Utah
November 16, 2012

Management's Discussion and Analysis

This section of Iron County School District's (District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ending June 30, 2012. This report is in conjunction with the District's financial statements.

Financial Highlights

- The District's assets (net of depreciation) exceeded liabilities by \$71,579,815 at the close of the most recent fiscal year.
- During the year, expenditures were \$3.1 million more than the \$69.9 million generated in taxes and other revenues for governmental funds. The additional expenditures were for construction costs of new school buildings currently under construction and bond payments. Additions and renovations being made to buildings in the district are nearing completion.
- The revenues met or exceeded the adopted budgeted amounts, and the expenditures were less than the adopted budgeted amounts.
- Property tax revenues increased slightly from \$23.8 million to \$24.7 million when compared to last year. Increases were primarily attributable to an increase in the tax rate for debt service. The District was required to increase the overall tax rate in other funds due to a decrease in the appraised property values. The District stayed within the certified tax rate as determined by the County Auditor.
- At the close of the current year, the District governmental funds reported combined ending fund balances of \$26.5 million as compared with \$29.4 million at the end of last year.
- The District's total long-term debt decreased by \$8.0 million during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues

and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Refer to the table of contents for the location of the government-wide financial statements.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the capital projects fund, each of which is considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements. Refer to the table of contents for the location of the notes to the financial statements.

Other information. The combining fund statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Refer to the table of contents for the location of combining fund statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$71,579,815 at the close of the most recent fiscal year.

IRON COUNTY SCHOOL DISTRICT'S Net position

| | Governmental Activities | | |
|-----------------------------------|-------------------------|---------------|----------------|
| | 6/30/2012 | 6/30/2011 | Change |
| Current and other assets | \$ 33,142,766 | \$ 36,030,606 | \$ (2,887,840) |
| Capital assets | 98,527,716 | 98,909,478 | (381,762) |
| Total assets | 131,670,482 | 134,940,084 | (3,269,602) |
| Current and other liabilities | 6,050,278 | 5,856,059 | 194,219 |
| Long-term liabilities outstanding | 54,040,389 | 62,643,108 | (8,602,719) |
| Total liabilities | 60,090,667 | 68,499,167 | (8,408,500) |
| Net position: | | | |
| Net investment in capital assets | 46,568,937 | 38,448,927 | 8,120,010 |
| Restricted | 6,325,924 | 7,308,035 | (982,111) |
| Unrestricted | 18,684,954 | 20,683,955 | (1,999,001) |
| Total net position | \$ 71,579,815 | \$ 66,440,917 | \$ 5,138,898 |

- 65% of the District's net position reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment net of accumulated depreciation), less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- A portion of the District's net position (9%) represents resources that are subject to external restrictions on how they may be used.
- The remaining balance of unrestricted net position (26%) may be used to meet the District's obligations to students, employees, and creditors, and to honor next year's budget.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position.

The District's net position increased by \$5,138,898 during the current year. The following analysis on governmental activities focuses on this increase.

IRON COUNTY SCHOOL DISTRICT'S Changes in Net position

| | Governmental Activities | | |
|---|-------------------------|----------------------|---------------------|
| | 6/30/2012 | 6/30/2011 | Change |
| Revenues | | | |
| Program revenues: | | | |
| Charges for services | \$ 3,026,170 | \$ 3,782,284 | \$ (756,114) |
| Operating grants and contributions | 21,163,482 | 25,466,245 | (4,302,763) |
| Capital grants and contributions | - | - | - |
| General revenues: | | | |
| Taxes | 24,680,662 | 23,857,326 | 823,336 |
| Federal and state aid not restricted to a specific purpose | 20,148,039 | 17,984,844 | 2,163,195 |
| Unrestricted investment earnings | 210,083 | 167,205 | 42,878 |
| Other | 731,957 | 418,285 | 313,672 |
| Total revenues | 69,960,393 | 71,676,189 | (1,715,796) |
| Expenses | | | |
| Instructional services | 43,597,129 | 42,750,831 | 846,298 |
| Supporting services: | | | |
| Students | 1,688,027 | 1,668,229 | 19,798 |
| Instructional staff | 1,402,213 | 1,262,298 | 139,915 |
| District administration | 483,813 | 445,294 | 38,519 |
| School administration | 3,165,769 | 3,082,558 | 83,211 |
| Central services | 931,986 | 1,147,807 | (215,821) |
| Operation and maintenance | 5,507,748 | 5,673,088 | (165,340) |
| Transportation | 2,381,541 | 2,629,337 | (247,796) |
| Community Services | 54,443 | 108,629 | (54,186) |
| School lunch services | 3,476,024 | 3,094,426 | 381,598 |
| Interest and fiscal charges | 2,132,802 | 2,385,718 | (252,916) |
| Total expenses | 64,821,495 | 64,248,215 | 573,280 |
| Increase in net assets | 5,138,898 | 7,427,974 | (2,289,076) |
| Net position, beginning | 66,440,917 | 59,012,943 | 7,427,974 |
| Net position, ending | \$ 71,579,815 | \$ 66,440,917 | \$ 5,138,898 |

Financial Analysis of the District's Funds

Governmental funds. Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into restricted and unrestricted portions. Restrictions indicate the portion of the District's fund balances that are not available for appropriation. The unrestricted fund balance is, in turn, subdivided between committed, assigned, and unassigned portions. Committed and assigned balances reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds. Unassigned balances in the general fund are

required by state law to be appropriated in the following year's budget. Fund balances of debt service, capital projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The \$16.2 million fund balance of the general fund is primarily designated for the following purposes:

- *Restricted.* The District has designated a portion of the general fund's balance for state categorical programs (\$2.8 million) with fund balances at the end of this fiscal year that must be appropriated in the next fiscal year.
- *Committed.* \$2.4 million or 4.9% of general fund budgeted expenditures. As allowed by state law, the District has established an undistributed reserve within the general fund; this amount is set aside for contingencies or possible reductions in state funding and is not to be used in the negotiation or settlement of contract salaries. The maintenance of a sufficient reserve is a key credit consideration in establishing the District's bond rating.
- *Assigned.* The District has designated a portion of the general fund's balance for special instructional projects (\$6.9 million) supporting the education process of the students and staff, including such things as technology, staff development, curriculum alignment, and additional textbooks and supplies.

General Fund Budgetary Highlights

During the year, the Board revised the District's budget. Budget amendments were made to reflect changes in programs and related funding. The difference between the original budget and the final amended budget was a decrease of \$273 thousand or .5% in total general fund expenditures. The most significant differences may be summarized as follows:

- \$587 thousand increase in instructional services, to reflect personnel adjustments, adjustments in contracted services, and adjustments for purchasing instructional supplies and equipment.
- \$250 thousand decrease in supporting services-transportation, to reflect personnel adjustments for salaries and benefits, adjustments in fuel costs, and decreases in contracted services.
- \$211 thousand decrease in supporting services-operation and maintenance of facilities, to reflect personnel adjustments, benefit adjustments, and adjustments in contracted services.
- \$359 thousand decrease in supporting services-students and instructional staff, to reflect personnel adjustments, adjustments in contracted services, and adjustments for purchasing supporting supplies and equipment.

During the year, final budgeted revenues were less than original budgetary estimates by \$354 thousand to account for changes in local revenue and federal and state aid.

Even with these adjustments, actual expenditures were \$113 thousand below final budgeted amounts. The most significant positive variances were \$72 thousand in instructional services, \$5 thousand in supporting services-instructional staff, \$19 thousand in supporting services-operation and maintenance of facilities, and \$15 thousand in supporting services-student transportation. On the other hand, resources available for appropriation were \$315 thousand above the final budgeted amount. Variances primarily result from expenditure-driven federal and state grants that are included in the budget. Such grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met; unspent grant amounts are carried forward and included in the succeeding year's budget.

Capital Asset and Debt Administration

Capital Assets. The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District.

Capital assets at June 30, 2012 are outlined below:

IRON COUNTY SCHOOL DISTRICT
Capital Assets
(net of accumulated depreciation)

| | Governmental Activities | | |
|-----------------------------------|-------------------------|---------------|---------------|
| | 6/30/2012 | 6/30/2011 | Change |
| Land | \$ 7,271,468 | \$ 7,271,468 | \$ - |
| Construction in progress | 17,203,206 | 23,599,733 | (6,396,527) |
| Buildings and improvements | 70,738,281 | 64,802,032 | 5,936,249 |
| Furniture, equipment and vehicles | 3,314,761 | 3,236,245 | 78,516 |
| | | | |
| Total capital assets, net | \$ 98,527,716 | \$ 98,909,478 | \$ 98,909,478 |

Additional information on the District’s capital assets can be found in the notes to the basic financial statements.

Debt Administration. At the end of the current year, the District had total bonded debt outstanding of \$51.7 million. The entire debt is general obligation debt.

IRON SCHOOL DISTRICT
Outstanding Debt
(in millions of dollars)

| | Governmental Activities | | |
|--------------------------|-------------------------|------------|---------|
| | 06/30/2012 | 06/30/2011 | Change |
| General Obligation Bonds | \$51.7 | \$59.7 | (\$8.0) |

The general obligation bonded debt of the District is limited by state law to four percent of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2012 is \$147,872,592. General obligation debt at June 30, 2012 is \$51,668,000, resulting in a legal debt margin of \$96,204,592.

Although it is not unusual at the national level to have a 30-year bond payoff schedule, the district maintains an aggressive schedule paying off debt by January 2024.

Additional information on the District’s long-term debt can be found in the notes to the basic financial statements.

Changing Enrollment within the District

The District has had a steady growth averaging 3% per year for much of the past decade. The last three years the growth has leveled at closer to 1%. This growth is made up of two components. The components are in-migration of students and the kindergarten to grade twelve (K-12) differential. The K-12 differential is the size of the grade twelve leaving, and the size of the kindergarten grade entering the District in a given year. District growth occurs when the number of kindergarten students entering the system exceeds the grade twelve students leaving the system in a given fiscal year.

The current comparison of grade twelve to the projected incoming kindergarten for the next few years indicates a growth of approximately 125-150 students per year. The District continues to see some in-migration due to its proximity to Southern Nevada and Southern California. There is a general trend of people leaving those areas and re-locating in our District but this has slowed somewhat in the past few years. Growth has slowed the past two or three years due to the economy, but higher than average birth rates in the county over the past five years indicate that the District will continue to grow. Current in-migration and birth rates have leveled off.

The District currently has elementary grades averaging over 700 students and secondary grades averaging around 600 students. In anticipation of these elementary grades eventually entering the secondary grades, the District held a bond election in June 2008 to secure funding to make additions to two of our secondary schools. The bond passed by a two to one margin. With the completion of these projects this coming year, the District will have the capacity to house our current enrollments along with projected growth in our secondary schools for the next seven to ten years. The bond that was passed also gave authorization to build a new elementary school in the future should that become necessary. We currently have adequate capacity in our elementary schools for our current students and projected growth for the next several years.

There are two charter schools operating within the District boundaries. Gateway Academy for kindergarten through eighth grades has been operating for four years. SUCCESS Academy for ninth through twelfth grades has been operating for six years. SUCCESS Academy is the only charter school in Utah chartered by a local Board of Education. This school works in cooperation with our District and with Southern Utah University in educating students. Students are on the University campus for some or all of their classes but can also return to their boundary school in the District to participate in music, art, elective classes, and extracurricular activities. When students complete their four years of secondary school, over 90% graduate with both a high school diploma and also an associate degree from Southern Utah University. SUCCESS Academy focuses on computer technology, engineering, science, and math curriculum. Having these two charter schools within our District boundaries has been beneficial because it has delayed our need to bond and build additional school facilities.

Requests for Information

This financial report is designed to provide a general overview of the Iron County School District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Administrator, Iron County School District, 2077 West Royal Hunte Drive, Cedar City, UT 84720.

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BASIC FINANCIAL STATEMENTS

IRON COUNTY SCHOOL DISTRICT
Statement of Net Position
June 30, 2012

| | Governmental Activities |
|---|------------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 23,567,245 |
| Receivables | 2,567,814 |
| Inventories | 324,437 |
| Deferred charges | 149,587 |
| Temporarily restricted cash and cash equivalents | 6,050,460 |
| Note receivable | 483,223 |
| Capital assets: | |
| Land and construction in progress | 24,474,674 |
| Other capital assets, net of accumulated depreciation | 74,053,042 |
| Total assets | 131,670,482 |
| Liabilities | |
| Accounts payable | 298,821 |
| Accrued salaries, benefits and withholdings | 5,751,457 |
| Noncurrent liabilities: | |
| Due within one year | 9,240,153 |
| Due in more than one year | 44,800,236 |
| Total liabilities | 60,090,667 |
| Net position | |
| Net investment in capital assets | 46,568,937 |
| Restricted for: | |
| Special transportation | 568,222 |
| Tort liability | 221,685 |
| Reading achievement program | 1,222,852 |
| State and federal programs | 829,106 |
| Debt service | 2,291,957 |
| Non K-12 programs | 29,479 |
| Food services | 1,162,623 |
| Unrestricted | 18,684,954 |
| Total net position | \$ 71,579,815 |

The accompanying notes are an integral part of the financial statements.

IRON COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

| Functions | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Total Governmental Activities |
| Governmental activities: | | | | | |
| Instructional services | \$ 43,597,129 | \$ 2,205,327 | \$ 17,080,931 | \$ - | \$ (24,310,871) |
| Supporting services: | | | | | |
| Students | 1,688,027 | - | - | - | (1,688,027) |
| Instructional staff | 1,402,213 | - | - | - | (1,402,213) |
| District administration | 483,813 | - | - | - | (483,813) |
| School administration | 3,165,769 | - | - | - | (3,165,769) |
| Central services | 931,986 | - | - | - | (931,986) |
| Operation and maintenance of facilities | 5,507,748 | - | - | - | (5,507,748) |
| Transportation | 2,381,541 | 13,560 | 1,436,513 | - | (931,468) |
| Community Services | 54,443 | 59,093 | - | - | 4,650 |
| School lunch services | 3,476,024 | 748,190 | 2,646,038 | - | (81,796) |
| Interest and fiscal charges | 2,132,802 | - | - | - | (2,132,802) |
| | <u>\$ 64,821,495</u> | <u>\$ 3,026,170</u> | <u>\$ 21,163,482</u> | <u>\$ -</u> | <u>(40,631,843)</u> |
| General revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes and other | | | | | 11,281,066 |
| Debt service | | | | | 9,554,651 |
| Capital outlay | | | | | 3,844,945 |
| Federal and state aid not restricted to specific purposes | | | | | 20,148,039 |
| Earnings on investments | | | | | 210,083 |
| Miscellaneous | | | | | 684,204 |
| Gain on sale of capital assets | | | | | 47,753 |
| Total general revenues | | | | | <u>45,770,741</u> |
| Change in net position | | | | | 5,138,898 |
| Net position - beginning | | | | | <u>66,440,917</u> |
| Net position - ending | | | | | <u>\$ 71,579,815</u> |

The accompanying notes are an integral part of the financial statements.

IRON COUNTY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2012

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-------------------------|-----------------------------|---|---|
| Assets | | | | | |
| Cash and cash equivalents | \$ 16,751,684 | \$ - | \$ 5,322,642 | \$ 1,492,919 | \$ 23,567,245 |
| Property taxes receivable | 163,302 | 148,550 | 59,778 | 12,088 | 383,718 |
| Receivables - other | 1,954,735 | - | - | 229,361 | 2,184,096 |
| Inventories | 243,449 | - | - | 80,988 | 324,437 |
| Cash and cash equivalents - restricted | 2,821,119 | 2,143,407 | - | 1,085,934 | 6,050,460 |
| Note receivable | - | - | 483,223 | - | 483,223 |
| Total assets | <u>\$ 21,934,289</u> | <u>\$ 2,291,957</u> | <u>\$ 5,865,643</u> | <u>\$ 2,901,290</u> | <u>\$ 32,993,179</u> |
| Liabilities and fund balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 144,513 | \$ - | \$ 116,310 | \$ 37,998 | \$ 298,821 |
| Accrued salaries, benefits and withholdings | 5,611,344 | - | 6,786 | 133,327 | 5,751,457 |
| Deferred revenue | - | - | 483,223 | - | 483,223 |
| Total liabilities | <u>5,755,857</u> | <u>-</u> | <u>606,319</u> | <u>171,325</u> | <u>6,533,501</u> |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Inventories | 243,449 | - | - | 80,988 | 324,437 |
| Restricted for: | | | | | |
| Special transportation | 568,222 | - | - | - | 568,222 |
| Tort liability | 221,685 | - | - | - | 221,685 |
| Reading achievement program | 1,222,852 | - | - | - | 1,222,852 |
| State and federal programs | 829,106 | - | - | - | 829,106 |
| Debt service | - | 2,291,957 | - | - | 2,291,957 |
| Non K-12 programs | - | - | - | 29,479 | 29,479 |
| Food services | - | - | - | 1,162,623 | 1,162,623 |
| Committed | 2,400,000 | - | - | 656,268 | 3,056,268 |
| Assigned | 6,915,000 | - | 5,259,324 | 800,607 | 12,974,931 |
| Unassigned | 3,778,118 | - | - | - | 3,778,118 |
| Total fund balances | <u>16,178,432</u> | <u>2,291,957</u> | <u>5,259,324</u> | <u>2,729,965</u> | <u>26,459,678</u> |
| Total liabilities and fund balances | <u>\$ 21,934,289</u> | <u>\$ 2,291,957</u> | <u>\$ 5,865,643</u> | <u>\$ 2,901,290</u> | |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | |
| Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. The cost of the assets is \$136,404,131 and the accumulated depreciation is \$37,876,415. | | | | | 98,527,716 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. See long-term receivables footnote. | | | | | 483,223 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. See the long-term debt footnote for the components of long-term debt. | | | | | (53,890,802) |
| | | | | | <u>\$ 71,579,815</u> |

The accompanying notes are an integral part of the financial statements.

IRON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|-------------------------|-----------------------------|---|---|
| Revenues | | | | | |
| Property taxes | \$ 10,503,527 | \$ 9,554,651 | \$ 3,844,945 | \$ 777,539 | \$ 24,680,662 |
| Student fees | - | - | - | 1,026,255 | 1,026,255 |
| Earnings on investments | 131,419 | 35,884 | 32,698 | 10,082 | 210,083 |
| Other local sources | 604,694 | - | 360,762 | 1,588,233 | 2,553,689 |
| State aid | 32,538,853 | - | 21,366 | 1,543,072 | 34,103,291 |
| Federal aid | 5,105,232 | - | - | 2,233,428 | 7,338,660 |
| Total revenues | <u>48,883,725</u> | <u>9,590,535</u> | <u>4,259,771</u> | <u>7,178,609</u> | <u>69,912,640</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Instructional services | 34,997,783 | - | - | 3,904,777 | 38,902,560 |
| Supporting services: | | | | | |
| Students | 1,700,635 | - | - | - | 1,700,635 |
| Instructional staff | 1,398,445 | - | - | - | 1,398,445 |
| District administration | 424,916 | - | - | - | 424,916 |
| School administration | 3,026,514 | - | - | - | 3,026,514 |
| Central services | 1,109,387 | - | - | - | 1,109,387 |
| Operation and maintenance | 5,372,767 | - | - | - | 5,372,767 |
| Transportation | 2,311,350 | - | - | - | 2,311,350 |
| Community services | - | - | - | 54,443 | 54,443 |
| School lunch services | - | - | - | 3,467,828 | 3,467,828 |
| Capital outlay | - | - | 4,593,345 | - | 4,593,345 |
| Debt service: | | | | | |
| Principal retirement | - | 8,045,000 | 391,666 | - | 8,436,666 |
| Interest and fiscal charges | - | 2,204,106 | 16,646 | - | 2,220,752 |
| Total expenditures | <u>50,341,797</u> | <u>10,249,106</u> | <u>5,001,657</u> | <u>7,427,048</u> | <u>73,019,608</u> |
| Excess of revenues over (under) expenditures | <u>(1,458,072)</u> | <u>(658,571)</u> | <u>(741,886)</u> | <u>(248,439)</u> | <u>(3,106,968)</u> |
| Other financing sources (uses) | | | | | |
| Transfers in | 500,000 | - | - | - | 500,000 |
| Transfers out | - | - | (500,000) | - | (500,000) |
| Sale of capital assets | - | - | 159,892 | - | 159,892 |
| Total other financing sources (uses) | <u>500,000</u> | <u>-</u> | <u>(340,108)</u> | <u>-</u> | <u>159,892</u> |
| Net change in fund balances | (958,072) | (658,571) | (1,081,994) | (248,439) | (2,947,076) |
| Fund balances - beginning | <u>17,136,504</u> | <u>2,950,528</u> | <u>6,341,318</u> | <u>2,978,404</u> | <u>29,406,754</u> |
| Fund balances - ending | <u>\$ 16,178,432</u> | <u>\$ 2,291,957</u> | <u>\$ 5,259,324</u> | <u>\$ 2,729,965</u> | <u>\$ 26,459,678</u> |

The accompanying notes are an integral part of the financial statements.

IRON COUNTY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To The Statement of Activities
For the Year Ended June 30, 2012

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

Net change in fund balances-total governmental funds **\$ (2,947,076)**

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

| | | | |
|--|----------------------|--------------------|-----------|
| | Capital outlays | \$ 2,835,613 | |
| | Depreciation expense | <u>(3,217,375)</u> | (381,762) |

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

| | | | |
|--|----------------------|---------------------|-----------|
| | Principal repayments | <u>\$ 8,436,666</u> | 8,436,666 |
|--|----------------------|---------------------|-----------|

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 governmental funds. The details of this difference are as follows:

| | | | |
|--|--------------------------------|---------------|---------|
| | Amortization of issuance costs | \$ (22,844) | |
| | Amortization of premiums | 87,950 | |
| | Compensated absences | (10,657) | |
| | Early retirement costs | <u>88,760</u> | 143,209 |

Receipts of principal payments on long-term receivables is recognized as revenue in the governmental funds as the entire receivable balance is deferred until it is available; however, in the government-wide financial statements, all of the revenue was recognized in the year of the exchange transaction. See the long-term receivable footnote for further details.

(112,139)

Change in net position of governmental activities **\$ 5,138,898**

The accompanying notes are an integral part of the financial statements.

IRON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – General Fund
For the Year Ended June 30, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|----------------------|---------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Property taxes | \$ 9,955,896 | \$ 10,503,518 | \$ 10,503,527 | \$ 9 |
| Earnings on investments | 300,000 | 131,419 | 131,419 | - |
| Other local sources | 600,000 | 604,215 | 604,694 | 479 |
| State aid | 33,766,565 | 32,585,812 | 32,538,853 | (46,959) |
| Federal aid | 4,300,000 | 4,743,456 | 5,105,232 | 361,776 |
| Total revenues | <u>48,922,461</u> | <u>48,568,420</u> | <u>48,883,725</u> | <u>315,305</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instructional services | 34,482,487 | 35,069,949 | 34,997,783 | 72,166 |
| Supporting services: | | | | |
| Students | 1,886,275 | 1,699,834 | 1,700,635 | (801) |
| Instructional staff | 1,576,570 | 1,404,096 | 1,398,445 | 5,651 |
| District administration | 445,245 | 425,365 | 424,916 | 449 |
| School administration | 3,101,681 | 3,026,463 | 3,026,514 | (51) |
| Central services | 1,055,423 | 1,111,209 | 1,109,387 | 1,822 |
| Operation and maintenance of facilities | 5,603,497 | 5,392,263 | 5,372,767 | 19,496 |
| Transportation | 2,576,336 | 2,326,027 | 2,311,350 | 14,677 |
| Total expenditures | <u>50,727,514</u> | <u>50,455,206</u> | <u>50,341,797</u> | <u>113,409</u> |
| Excess of revenues over (under) expenditures | <u>(1,805,053)</u> | <u>(1,886,786)</u> | <u>(1,458,072)</u> | <u>428,714</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 500,000 | 500,000 | 500,000 | - |
| Other | 1,086,317 | 1,086,317 | - | (1,086,317) |
| Net change in fund balances | <u>(218,736)</u> | <u>(300,469)</u> | <u>(958,072)</u> | <u>(657,603)</u> |
| Fund balances - beginning | <u>17,136,504</u> | <u>17,136,504</u> | <u>17,136,504</u> | <u>-</u> |
| Fund balances - ending | <u>\$ 16,917,768</u> | <u>\$ 16,836,035</u> | <u>\$ 16,178,432</u> | <u>\$ (657,603)</u> |

The accompanying notes are an integral part of the financial statements.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies

General

The financial statements of Iron County School District (the District) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are described below.

Reporting Entity

The Board of Education, comprised of five elected individuals, is the primary governing authority for the District. For financial reporting purposes, the District has included all funds. In accordance with GAAP, 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 relationships with the District is 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 are included in Governmental Accounting Standards Board Statement No. 14 and include appointing a voting majority of an organization's governing body and the ability of the District to impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the District.

Based upon the criteria established by Governmental Accounting Standards Board Statements No. 14, no component units were deemed to exist at June 30, 2012 and no component unit information is include in this report. The District is not a component unit of any other primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of the interfund activity has been removed from these statements.

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District receives value without directly giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized when they are collected or if they are collected within 60 days of the end of the current fiscal period. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than as an expenditure. Proceeds from long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the District are reported as a reduction of a related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The District reports the following major governmental funds:

The **General Fund** is used to account for all financial resources applicable to the general operations of the District that are not accounted for in other funds.

The **Debt Service fund** is used to account for the accumulation of resources and payment of general obligation bond principal and interest.

The **Capital Projects Fund** is used to account for resources accumulated and payments made for the acquisition and improvement of sites; construction and remodel of facilities; and procurement of furniture, equipment and vehicles necessary for providing educational programs for all students within the District.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

The District's **non-major governmental funds** account for specific revenue sources that are legally restricted to expenditures for specific purposes. Non-major funds are the Student Activities Fund, Non K-12 Programs Fund, and Food Services Fund.

As a general rule, the effect of inter-fund activity, if any, has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to students for tuition, fees, rental, material, supplies, or services provided, 2) operating grants and contributions, 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

Cash includes cash on hand, demand deposits with banks and other financial institutions, deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts and short-term investments with original maturities of three months or less from the date of acquisition, including investments in the Public Treasurers' Investment Fund (PTIF). All investments are carried at fair value with changes in the fair value of investments recorded as investment earnings.

Receivables

The District does not have any trade accounts receivable, all other receivables are deemed collectible and an allowance for uncollectible accounts is deemed immaterial and has not been recorded.

The District's receivables consist primarily of property taxes (see details below) and reimbursements-type revenues relating to various school programs. The latter revenues are classified as "receivables – other" in the fund financial statements.

The note receivable in the capital projects fund relates to an installment sale that originated in fiscal year 2000. Since these revenues are not available (as defined earlier) for the current period, the full amount has been deferred in the fund financial statements. See footnote 4 for further details on the long-term receivable.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

Property Taxes and Related Receivables

The property tax revenue of the District is collected and distributed by the Iron County Treasurer as an agent of the District. Utah statutes establish the process by which taxes are levied and collected. The lien date for real property in the State of Utah is the annual date on which the county assessor's office must establish the owner for record and assessed values of the property to be taxed. The lien date is January 1. The county assessor's office is required to complete the tax rolls by May 15. By July 21, the county auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The county auditor makes approved changes in assessed value by November 1 and on this same date the county auditor is to deliver the completed assessment rolls to the county treasurer. Tax notices are mailed with a due date of November 30.

An annual uniform fee based on the age of motor vehicles is levied in lieu of an ad valorem tax on motor vehicles that is due each time a vehicle is registered. Revenues collected in each county from motor fees is distributed by the county to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed.

As of June 30, 2012, property taxes receivable by the District includes taxes received within 60 days after fiscal year end, unless they are prepaid.

Inventories

Inventories are valued at cost or, if donated, at fair value when received, using the moving average method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Donated food commodities are reported in the governmental funds as revenue when received.

Capital Assets

Capital assets, which include land, buildings and improvements and furniture, equipment and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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 assets lives are not capitalized.

Land and construction in progress are not depreciated. Property and equipment are depreciated using the straight-line method over the following estimated useful lives building and improvements – 20 to 40 years; furniture, equipment and vehicles – 3 to 15 years.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Twelve-month or full-year employees earn vacation and sick leave in amounts varying with tenure. In the event of termination, an employee is reimbursed for accumulated vacation days. An employee may carryover a maximum of five unused vacation days to the next year. All vacation pay is accrued when incurred in the government-wide financial statements. No reimbursement or accrual is made for unused sick leave.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net position. Bond premiums, discounts, and issuance costs are deferred and amortized over the life of the applicable debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position and Fund Equity

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the District's policy to use committed resources first, followed by assigned resources and then unassigned resources as they are needed.

Equity is classified in the government-wide financial statements as net position and is displayed in three components as follows:

Net investment in capital assets represents capital assets, net of accumulated depreciation and reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position are assets with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position are all other assets that do not meet the definition of "restricted" or "net investment in capital assets."

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 1. Summary of Significant Accounting Policies (Continued)

Equity is classified in the governmental fund financial statements as fund balance and is further classified as nonspendable, restricted, committed, assigned or unassigned as follows:

Nonspendable fund balance cannot be spent because it is either (1) not in spendable form, or (2) legally or contractually required to be maintained intact.

Restricted fund balance is fund balance with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Committed fund balance can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the District's Board of Education. A resolution, ordinance or vote by the Board of Education is required to establish, modify or rescind a fund balance commitment.

Assigned fund balance is constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The District Superintendent and District Business Administrator are authorized to assign amounts to a specific purpose at the end of each fiscal year.

Unassigned fund balance is a residual classification of the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose within the General Fund.

Estimates

Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenditures. Actual results could differ from those estimates.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 2. Stewardship, Compliance and Accountability

Budgets and Budgetary Accounting

Budgets are presented on the modified accrual basis of accounting for all governmental funds. All annual appropriations lapse at fiscal year end with the exception of those indicated as a fund balance reserve. The following procedures are used in establishing the budgetary data reflected in the financial statements.

- During May of each year, the District superintendent submits to the Board a proposed operating budget for the next fiscal year commencing July 1. This budget includes proposed expenditures and the means of financing them. Included also is a final budget for the current year ending June 30.
- Copies of the proposed budget are made available for public inspection and review by the patrons of the District.
- If the District does not exceed the certified tax rate, a public hearing is held prior to June 22 at which the budget is legally adopted by resolution of the Board after obtaining taxpayer input. If the District exceeds the certified tax rate, the budget is adopted in August when additional data is available to set the rates.
- Once adopted, the budget can be amended by subsequent Board action. The Board upon recommendation of the superintendent can approve reductions in appropriations, but increases in appropriations by fund require a public hearing prior to amending the budget. In accordance with Utah state law, interim adjustments may be made by administrative transfer of money from one appropriation to another within any given fund.
- Certain interim adjustments in estimated revenue and expenditures during the current fiscal year have been included in the final budget approved by the Board, as presented in the financial statements.
- Expenditures may not legally exceed budgeted appropriations at the fund level.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments

Deposits and investments of the District at June 30, 2012 consist of the following:

| | |
|-----------------------------------|-----------------------------|
| Deposits and investments: | |
| Cash in bank | \$ 2,717,054 |
| State Treasurer's Investment Pool | <u>26,900,651</u> |
| Total deposits and investments | <u><u>\$ 29,617,705</u></u> |

A reconciliation of deposits and investment as shown on the statement of net position is as follows:

| | |
|---------------------------|-----------------------------|
| Cash and cash equivalents | \$ 23,567,245 |
| Cash - restricted | <u>6,050,460</u> |
| Total | <u><u>\$ 29,617,705</u></u> |

Restricted cash at June 30, 2012 is comprised of the following:

| | |
|-----------------------------|----------------------------|
| General fund: | |
| Special transportation | \$ 556,953 |
| Tort liability | 221,019 |
| Reading achievement program | 1,214,041 |
| Specific programs | <u>829,106</u> |
| Total general fund | <u>2,821,119</u> |
| Debt service fund: | |
| Debt service | 2,143,407 |
| Nonmajor funds: | |
| Non K-12 programs | 20,387 |
| Food service | <u>1,065,547</u> |
| Total nonmajor funds | <u>1,085,934</u> |
| Total cash - restricted | <u><u>\$ 6,050,460</u></u> |

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (Continued)

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (*Utah code*, Section 51, chapter 7) in handling its depository and investment transactions. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

Deposits

Custodial Credit Risk

For deposits this is the risk that in the event of a bank failure, the District's deposit may not be returned to it. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money management Council. As of June 30, 2012, \$27,498 of the District's bank balance of \$3,830,888 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investment for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (Continued)

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s, bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurer’s Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gain or losses on investments. Financial statements for the PTIF funds can be obtained by contacting the Utah State Treasurer’s office.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2012 the District had the following investments and maturities:

| Investment type | Fair Value | Investments Maturities (in Years) | | | |
|---|---------------|-----------------------------------|------|------|--------------|
| | | Less than 1 | 1-5 | 6-10 | More than 10 |
| Utah Public Treasurers' Investment Fund | \$ 26,900,651 | \$ 26,900,651 | \$ - | \$ - | \$ - |
| Total fair value | \$ 26,900,651 | \$ 26,900,651 | \$ - | \$ - | \$ - |

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’s policy for managing its exposure to fair value loss arising from increasing interest rates is by solely investing in the PTIF and by complying with the Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 3. Deposits and Investments (Continued)

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act.

As of the end of the year, the District had no investments other than an investment in the Utah Public Treasurer's Investment Fund.

At June 30, 2012 the District had the following investments and quality ratings:

| Investment type | Fair Value | Quality Ratings | | | |
|---|----------------------|-----------------|-------------|-------------|----------------------|
| | | AAA | AA | A | Unrated |
| Utah Public Treasurers' Investment Fund | \$ 26,900,651 | \$ - | \$ - | \$ - | \$ 26,900,651 |
| Total fair value | <u>\$ 26,900,651</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 26,900,651</u> |

NOTE 4. Long-term Receivable

In fiscal year 2000, the District entered into an agreement with Southwest Applied Technology College (SWATC) to sell facilities that were purchased by the District to SWATC. This sale was recorded as a receivable in the capital projects fund. The monthly interest charged on the note is 3%. The annual payments, including interest payments, to the District are as follows:

| June 30, | Principal | Interest | Total |
|----------|-------------------|------------------|-------------------|
| 2013 | \$ 115,503 | \$ 14,497 | \$ 130,000 |
| 2014 | 118,969 | 11,031 | 130,000 |
| 2015 | 122,537 | 7,463 | 130,000 |
| 2016 | <u>126,214</u> | <u>3,786</u> | <u>130,000</u> |
| Total | <u>\$ 483,223</u> | <u>\$ 36,777</u> | <u>\$ 520,000</u> |

As part of the agreement, SWATC also pays the District an additional \$70,000 each year as a reimbursement of payroll-related costs. Consequently, the total annual payment is \$200,000.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 5. Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

| | <u>Balance 6/30/2011</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 6/30/2012</u> |
|--|------------------------------|---------------------|---------------------|------------------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 7,271,468 | \$ - | \$ - | \$ 7,271,468 |
| Construction in progress | 23,599,733 | 1,608,865 | 8,005,392 | 17,203,206 |
| Total capital assets, not being depreciated: | <u>30,871,201</u> | <u>1,608,865</u> | <u>8,005,392</u> | <u>24,474,674</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 92,688,468 | 8,423,164 | - | 101,111,632 |
| Furniture, equipment and vehicles | 10,417,238 | 808,976 | 408,389 | 10,817,825 |
| Total capital assets, being depreciated: | <u>103,105,706</u> | <u>9,232,140</u> | <u>408,389</u> | <u>111,929,457</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (27,886,436) | (2,486,915) | - | (30,373,351) |
| Furniture, equipment and vehicles | (7,180,993) | (730,460) | (408,389) | (7,503,064) |
| Total accumulated depreciation | <u>(35,067,429)</u> | <u>(3,217,375)</u> | <u>(408,389)</u> | <u>(37,876,415)</u> |
| Total capital assets, being depreciated, net | <u>68,038,277</u> | <u>6,014,765</u> | <u>-</u> | <u>74,053,042</u> |
| Governmental activities capital assets, net | <u>\$ 98,909,478</u> | <u>\$ 7,623,630</u> | <u>\$ 8,005,392</u> | <u>\$ 98,527,716</u> |

Depreciation expense was charged to the functions of the District as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| Instructional services | \$ 2,566,811 |
| Supporting services: | |
| Students | 4,646 |
| Instructional staff | 27,453 |
| District administration | 36,053 |
| School administration | 2,960 |
| Central services | 84,229 |
| Operations and maintenance of facilities | 96,445 |
| Transportation | 390,582 |
| Community services: | |
| School lunch services | <u>8,196</u> |
| Total depreciation expense - governmental activities | <u>\$ 3,217,375</u> |

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Debt

Long-term obligations activity for the year ended June 30, 2012 is as follows:

| Governmental activities: | Balance 6/30/2011 | Additions | Reductions | Balance 6/30/2012 | Current Portion |
|---------------------------------|------------------------------|-------------------|-----------------------|------------------------------|----------------------------|
| Bonds payable | \$ 59,713,000 | \$ - | \$ (8,045,000) | \$ 51,668,000 | \$ 8,503,000 |
| Plus bond premiums | 528,316 | - | (87,950) | 440,366 | - |
| Total bonds payable | <u>60,241,316</u> | <u>-</u> | <u>(8,132,950)</u> | <u>52,108,366</u> | <u>8,503,000</u> |
| Loans payable | 391,666 | - | (391,666) | - | - |
| Compensated absences* | 144,511 | 10,657 | - | 155,168 | 155,168 |
| Early retirement payable | <u>1,865,615</u> | <u>486,900</u> | <u>(575,660)</u> | <u>1,776,855</u> | <u>581,985</u> |
| Total long-term debt | <u>\$ 62,643,108</u> | <u>\$ 497,557</u> | <u>\$ (9,100,276)</u> | <u>\$ 54,040,389</u> | <u>\$ 9,240,153</u> |

*The compensated absences additions amount is net of reductions.

The annual requirements to retire outstanding bonds and loans as of June 30, 2012 are as follows:

| Period Ending | Bonds | | |
|---------------|----------------------|----------------------|----------------------|
| | Principal | Interest | Total Bonds |
| June 30 | | | |
| 2013 | \$ 8,503,000 | \$ 2,035,822 | \$ 10,538,822 |
| 2014 | 7,615,000 | 1,723,681 | 9,338,681 |
| 2015 | 6,560,000 | 1,421,016 | 7,981,016 |
| 2016 | 3,705,000 | 1,218,353 | 4,923,353 |
| 2017 | 3,865,000 | 1,068,209 | 4,933,209 |
| 2018-2022 | 18,505,000 | 2,781,150 | 21,286,150 |
| 2023-2027 | <u>2,915,000</u> | <u>153,534</u> | <u>3,068,534</u> |
| Total | <u>\$ 51,668,000</u> | <u>\$ 10,401,765</u> | <u>\$ 62,069,765</u> |

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Debt (Continued)

Long-term obligations as of June 30, 2012 consist of the following:

Bonds payable:

| | |
|--|-----------------------------|
| \$19,810,000 Series 2004 General Obligation Refunding Bonds payable in annual installments with interest of 2.5% to 4% paid semi-annually. | \$ 8,965,000 |
| \$23,500,000 Series 2005 General Obligation School Building Bonds payable in annual installments with interest of 3.5% to 5% paid semi-annually. | 21,045,000 |
| \$6,466,000 Series 2007 General Obligation Refunding bonds payable in annual installments with interest of 3.749% paid semi-annually. | 3,203,000 |
| \$10,000,000 Series 2008 General Obligation Building bonds payable in annual installments with interest of 4.625% paid semi-annually. | 8,515,000 |
| \$10,600,000 Series 2009 General Obligation Building bonds payable in annual installments with interest of 3.45% paid semi-annually. | 6,940,000 |
| \$3,000,000 Series 2011 General Obligation Building bonds payable maturing January 15, 2015 with interest of 2.00% paid semi-annually. | <u>3,000,000</u> |
| Total bonds payable | 51,668,000 |
| Compensated absences payable | 155,168 |
| Early retirement payable | 1,776,855 |
| Bond premiums | <u>440,366</u> |
| Total long-term debt | <u>\$ 54,040,389</u> |
| Due within one year | \$ 9,240,153 |
| Due in more than one year | <u>44,800,236</u> |
| Total long-term debt | <u><u>\$ 54,040,389</u></u> |

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 6. Long-term Debt (Continued)

During the fiscal year ended June 30, 2004, the District effected an advance refunding with the issuance of \$19,810,000 of Series 2004 General Obligation Refunding Bonds dated March 4, 2004. The transaction is considered to be an advanced refunding in that the proceeds of the new bonds have been placed in an irrevocable escrow controlled by the trust department of Wells Fargo Bank Northwest, N.A. These proceeds will be used to defease \$18,475,000 of the Series 1998 School Building Bonds previously issued by the District. The amounts placed in escrow have been invested in US Treasury state and local government series obligations.

The amounts placed in escrow were sufficient to pay debt service on the refunded bonds with a payment of \$18,475,000 that was made on July 15, 2008. The present value of the amounts placed in escrow equal the present value of the remaining debt service on the refunded bonds.

The refunded bonds bear interest of 5% with the refunding bonds bearing interest of 2.5% to 4%. The net present value of the savings benefit is \$610,257.

In accordance with generally accepted accounting principles concerning advanced refunding of bonds, the defeased portion of the Series 1998 bonds as well as the irrevocable escrow are not reported by the District. The refunding bonds have been included in general long-term debt.

During the fiscal year ending June 30, 2007 the District effected an advance refunding with the issuance of \$6,466,000 of Series 2007 General Obligation Refunding bonds dated May 16, 2008. The transaction is considered to be an advanced refunding in that the proceeds of the new bonds have been placed in an irrevocable escrow controlled by the trust department of Wells Fargo Bank. The proceeds will be used to defease \$6,310,000 of the Series 1997 General Obligation School Building Bonds previously issued by the District. The bonds defeased represent amounts that would have been invested in US Treasury state and local government series obligations. The Series 2007 bonds are non-callable and the present value of the amounts placed in escrow equal the present value of the remaining debt service on the refunded bonds.

The refunded bonds bear interest of 5% with the refunding bonds bearing interest of 3.749%. The net present value of the savings benefit is \$318,275.

In accordance with generally accepted accounting principles concerning advanced refunding of bonds, the defeased portion of the Series 1997 bonds as well as the irrevocable escrow are not reported by the District. The refunding bonds have been included in the general long-term debt.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 7. **Designated for Undistributed Reserve**

Utah state law allows for the establishment of an undistributed reserve. The Board must authorize expenditures from the undistributed reserve. This reserve is for contingencies. According to state law, the District may not use undistributed reserves in the negotiation or settlement of contract salaries for District employees. The undistributed reserve may not exceed 5% of the current fiscal year's total general fund budgeted expenditures. Use of the reserve requires a written resolution adopted by a majority vote of the Board filed with the Utah State Board of Education and State Auditor.

NOTE 8. **Grants**

The District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable fund. Based on prior experience, the District's administration estimates such disallowance, if any, would be immaterial.

NOTE 9. **Risk Management**

The District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; violation of civil rights; and natural disasters. These risks are covered by the District's participation in the Utah State Risk Management Fund for school districts. This is a pooled arrangement where the District's pay experienced rated annual premiums that are designed to pay claims and build sufficient reserves so that the pool will be able to protect the participating entities with its own capital. The pool reinsures excess losses to preserve the capital base. Property physical damage is insured to replacement value with a \$1,000 deductible; automobile physical damage is insured to actual value with a \$350 deductible; other liability is limited to the lesser of \$10 million or the statutory limit. Insurance coverage by major category of risk has remained relatively constant as compared to the prior fiscal year. The amount of insurance settlements did not exceed insurance coverage for each of the past three years.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement Plans

Defined Benefit Plans

The District contributes to the State and School Contributory Retirement System and State and School Noncontributory Retirement System, cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 S., Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Plan members in the State and School Contributory Retirement System are required to contribute 1.00% and the District contributes 17.37% (5.00% of which is paid by the District for the employees and 12.37% is the District's required portion). In the State and School Noncontributory Retirement System the District is required to contribute 16.86% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Defined Contribution Plans

The District also participates in a defined contribution plan under Internal Revenue Code Section 401(k) to supplement retirement benefits accrued by participants in the Systems. Employees covered by the State and School Noncontributory Retirement System have a contribution of 1.5% of covered salaries automatically made by the District. Employees participating in the Systems can make additional contributions to the 401(k) plan up to specified limits. The 401(k) plan funds are fully vested to participants at the time of deposit. Plan assets are administered and held by the URS and EMIA, which have the authority to establish or amend contribution requirements and other plan provisions.

The District also offers its employees deferred compensation plans under various Internal Revenue Code sections (457 and Roth IRA plans). The plans, available to all full-time employees, permit them to defer a portion of their salary until future years. Employees are eligible to participate from the date of employment and are vested immediately upon participating. Plan assets are administered and held by the URS. The URS and the District have the authority to establish or amend the plans.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement Plans (Continued)

The required contributions and amounts received for the 2012 fiscal year and the two previous years are as follows:

| <u>Year</u> | <u>Employee paid contributions</u> | <u>Employer paid for employee contributions</u> | <u>Employer contributions</u> | <u>Salary subject to retirement contributions</u> |
|------------------------------|--|---|-----------------------------------|---|
| Contributory System: | | | | |
| State and School Division | | | | |
| 2012 | \$ 639 | \$ 3,196 | \$ 61,407 | \$ 769,392 |
| 2011 | 626 | 3,129 | 7,227 | 62,586 |
| 2010 | 804 | 4,019 | 7,821 | 80,382 |
| Noncontributory System: | | | | |
| State and School Division | | | | |
| 2012 | \$ - | \$ - | \$ 4,733,636 | \$ 28,929,864 |
| 2011 | - | - | 4,631,905 | 28,954,253 |
| 2010 | - | - | 4,114,844 | 28,937,020 |
| Defined Contribution System: | | | | |
| 457 Plan | | | | |
| 2012 | \$ 17,827 | \$ - | | |
| 2011 | 19,484 | - | | |
| 2010 | 30,096 | - | | |
| 401 (k) Plan | | | | |
| 2012 | \$ 619,148 | \$ 500,016 | | |
| 2011 | 643,655 | 492,985 | | |
| 2010 | 737,268 | 523,607 | | |
| Roth IRA Plan | | | | |
| 2012 | \$ 21,210 | \$ - | | |
| 2011 | 17,780 | - | | |
| 2010 | 14,200 | - | | |

The contributions were equal to the required contributions for each year.

IRON COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2012

NOTE 10. Retirement Plans (Continued)

Early Retirement Incentives

The District provides an early retirement stipend, restricted to those full-time employees with a minimum amount of 15 years (immediately preceding his/her retirement) of service in the District who have reached age 60 (or attained 30 year service requirement). Qualifying employees will receive a semi-month stipend equal to 1/24 of 20% of the employee's salary during the contract year of retirement for the first year of retirement. This benefit will be provided for a maximum of five years. For the second through fifth retirement years the percentages are 17%, 14%, 11% and 8%, respectively. For qualifying employees who retire with at least 25 years of full-time service with the District, immediately preceding retirement, the percentage remains at 20% through all five years.

In addition to the stipend, qualifying employees also receive an insurance benefit. The insurance benefit consists of the same health insurance coverage for the retired employee as if the retired employee were still employed by the District. However, when a retired employee receiving such benefits becomes eligible to join Medicare, the insurance benefit ceases.

The early retirement incentive costs to the District for the next five year are estimated and accrued in the government-wide financial statements as early retirement payable (see long-term debt footnote). The estimated liability has not been discounted. During fiscal year 2012 the District paid approximately \$575,660 in stipends and insurance benefits.

COMBINING STATEMENTS

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Non K-12 Programs Fund: This fund is used to account for programs that are not part of the basic educational program of kindergarten, elementary and secondary students. These areas include adult education and preschool for disabled students, which are funded primarily by the State of Utah and the U.S. Government.

School Lunch Fund: This fund is used to account for the food service activities of the District as required by state and federal law. Financing is provided by local sales along with substantial subsidies from the State of Utah and U.S. Government to help ensure that students receive low cost, nutritionally balanced meals.

Student Activity Fund: This fund is comprised of revenues and expenditures from school-based operations. The revenues primarily consist of interest earnings, gate receipts, fundraisers and student fees. Expenditures support curricular and extra-curricular activities.

IRON COUNTY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

| | <u>Special Revenue</u> | | | Total Nonmajor Governmental Funds |
|---|------------------------------|-------------------------|-------------------------------|--|
| | <u>Non K-12 Programs</u> | <u>School Lunch</u> | <u>Student Activities</u> | |
| Assets | | | | |
| Cash and cash equivalents | \$ 836,651 | \$ - | \$ 656,268 | \$ 1,492,919 |
| Property taxes receivable | 12,088 | - | - | 12,088 |
| Receivables - other | 46,996 | 182,365 | - | 229,361 |
| Inventories | - | 80,988 | - | 80,988 |
| Cash and cash equivalents - restricted | 20,387 | 1,065,547 | - | 1,085,934 |
| Total assets | <u>\$ 916,122</u> | <u>\$ 1,328,900</u> | <u>\$ 656,268</u> | <u>\$ 2,901,290</u> |
| Liabilities | | | | |
| Accounts payable | \$ 4,761 | \$ 33,237 | \$ - | \$ 37,998 |
| Accrued salaries, benefits and withholdings | 81,275 | 52,052 | - | 133,327 |
| Total liabilities | <u>86,036</u> | <u>85,289</u> | <u>-</u> | <u>171,325</u> |
| Fund balances | | | | |
| Nonspendable: | | | | |
| Inventories | - | 80,988 | - | 80,988 |
| Restricted for: | | | | |
| Non K-12 programs | 29,479 | - | - | 29,479 |
| Food services | - | 1,162,623 | - | 1,162,623 |
| Committed to: | | | | |
| Student activities | - | - | 656,268 | 656,268 |
| Assigned to: | | | | |
| Non K-12 programs | 800,607 | - | - | 800,607 |
| Total fund balances | <u>830,086</u> | <u>1,243,611</u> | <u>656,268</u> | <u>2,729,965</u> |
| Total liabilities and fund balances | <u>\$ 916,122</u> | <u>\$ 1,328,900</u> | <u>\$ 656,268</u> | <u>\$ 2,901,290</u> |

IRON COUNTY SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

| | <u>Special Revenue</u> | | | Total Nonmajor Governmental Funds |
|---|------------------------------|----------------------------|-------------------------------|--|
| | <u>Non K-12 Programs</u> | <u>School Lunch</u> | <u>Student Activities</u> | |
| Revenues | | | | |
| Property taxes | \$ 777,539 | \$ - | \$ - | \$ 777,539 |
| Student fees | - | - | 1,026,255 | 1,026,255 |
| Earnings on investments | - | - | 10,082 | 10,082 |
| Other local sources | 103,398 | 748,190 | 736,645 | 1,588,233 |
| State aid | 1,047,474 | 495,598 | - | 1,543,072 |
| Federal aid | 82,988 | 2,150,440 | - | 2,233,428 |
| Total revenues | <u>2,011,399</u> | <u>3,394,228</u> | <u>1,772,982</u> | <u>7,178,609</u> |
| Expenditures | | | | |
| Instruction | 2,142,159 | - | 1,762,618 | 3,904,777 |
| Community services | 54,443 | - | - | 54,443 |
| School lunch services | - | 3,467,828 | - | 3,467,828 |
| Total expenditures | <u>2,196,602</u> | <u>3,467,828</u> | <u>1,762,618</u> | <u>7,427,048</u> |
| Excess of revenues over (under) expenditures | (185,203) | (73,600) | 10,364 | (248,439) |
| Fund balances - beginning | <u>1,015,289</u> | <u>1,317,211</u> | <u>645,904</u> | <u>2,978,404</u> |
| Fund balances - ending | <u><u>\$ 830,086</u></u> | <u><u>\$ 1,243,611</u></u> | <u><u>\$ 656,268</u></u> | <u><u>\$ 2,729,965</u></u> |

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FEDERAL AND STATE REPORTS



MEMBERS:

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**Independent Auditors' 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***

Honorable Board of Education
Iron County School District
Cedar City, Utah

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Iron County School District, as of and for the year ended June 30, 2012, which collectively comprise Iron County School District's basic financial statements and have issued our report thereon dated November 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Iron County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Iron County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain other items that we reported to management of Iron County School District in a separate letter dated November 16, 2012.

This report is intended solely for the information and use of management, the Board of Education, others within the District, the Utah State Office of Education, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



HintonBurdick, PLLC
St. George, Utah
November 16, 2012



**Report on Compliance With Requirements
 That Could Have a Direct and Material Effect
 on Each Major Program and on Internal Control
 Over Compliance in Accordance With OMB Circular A-133**

Honorable Board of Education
 Iron County School District
 Cedar City, Utah

Compliance

We have audited the compliance of Iron County School District, State of Utah, with the types of compliance requirements described in the U. S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of Iron County School District’s major federal programs for the year ended June 30, 2012. Iron County School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Iron County School District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Iron County School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Iron County School District’s compliance with those requirements.

In our opinion, Iron County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Iron County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Iron County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Iron County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, others within the District, the Utah State Office of Education, the Utah State Auditor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



HintonBurdick, PLLC
St. George, Utah
November 16, 2012

IRON COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: Unqualified
Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal Control over major programs:

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------------------|---|
| 84.027, 84.391, 84.392, 84.173 | Special Education Cluster (IDEA) |
| 84.389, 84.010 | Title I, Part A Cluster |
| 10.553, 10.555 | Child Nutrition Cluster |

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes No

IRON COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs, Continued
For the Year Ended June 30, 2012

Section II – Financial Statement Findings

No significant matters were noted.

Section III – Federal Award Findings and Questioned Costs

No significant matters were noted.

Section IV – Summary Schedule of Prior Audit Findings

No significant matters were noted.

IRON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

| Grantor Agency/Program | Federal CFDA Number | Pass-through Grantor's Program Number | Expenditures |
|---|---------------------------|---|---------------------|
| U.S. Department of Agriculture | | | |
| Passed through the Utah State Office of Education: | | | |
| National School Breakfast Program | 10.553 | 8001 | \$ 386,740 |
| National School lunch Program | 10.555 | 8001 | 1,664,733 |
| USDA Commodities - Food Donation | 10.550 | 8001 | 98,967 |
| Total U.S. Department of Agriculture | | | <u>2,150,440</u> |
| U.S. Department of Education | | | |
| Direct Award: | | | |
| Indian Education | 84.060A | 7330 | 46,867 |
| Passed through the Utah State Office of Education: | | | |
| Career Pathway | 84.048A | 6043 | 67,874 |
| Vocational Education - Basic Grant, Carl Perkins | 84.048A | 6900 | 141,274 |
| I.D.E.A., Part B, Preschool Special Education | 84.173A | 7522 | 58,221 |
| I.D.E.A., Part B, Special Education Grants to States | 84.027A | 7524 | 1,460,899 |
| Adult Education English Language/Civics Grant | 84.002A | 7584 | 9,655 |
| AARA Title I | 84.389A | 7662 | 117,898 |
| ARRA Special Ed | 84.391A | 7664 | 218,708 |
| ARRA Pre-School | 84.392A | 7667 | 13,481 |
| ARRA Educator Jobs | 84.410A | 7669 | 22,587 |
| NCLB - Title I, Part A | 84.010A | 7801 | 1,850,351 |
| NCLB - Neglected & Delinquent | 84.013A | 7840 | 10,450 |
| Improving Teacher Quality State Grants | 84.367 | 7860 | 296,545 |
| NCLB - Title II, Part D, Educational Technology | 84.318X | 7870 | 2,495 |
| NCLB - Title III, Part A, English Language Acquisition | 84.365A | 7880 | 26,791 |
| ARRA Education for Homeless Children and Youth | 84.387A | 7950 | 9,927 |
| Total U.S. Department of Education | | | <u>4,354,023</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 6,504,463</u> |

Note: This schedule has been prepared on the modified accrual basis of accounting.

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**Independent Auditors’ Report on Compliance
 In Accordance With The State of Utah Legal
 Compliance Audit Guide**

Honorable Board of Education
 Iron County School District
 Cedar City, Utah

We have audited Iron County School District’s compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2012. The general compliance requirements applicable to the District are identified as follows:

- | | |
|-------------------------|--|
| Public Debt | Truth in Taxation and Property Tax Limitations |
| Cash Management | URS Compliance |
| Purchasing Requirements | Fund Balance |
| Budgetary Compliance | School Fees |
| Other General Issues | |

The District received the following major assistance programs from the State of Utah (through the State Office of Education):

- Minimum School Program
- School Lunch (State Fund Portion)
- Locally Generated Taxes & Fees

Compliance with the requirements referred to above is the responsibility of the District’s management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Utah Legal Compliance Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the major assistance programs or general compliance requirements identified above. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District’s compliance with those requirements.

In our opinion, Iron County School District complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state assistance programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the *State of Utah Compliance Audit Guide* and which are described in our letter to management dated November 16, 2012 as items 2012-1 and 2012-2.

Management's response to the findings identified in our audit is described in the accompanying letter to management. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the District, the Office of the Utah State Auditor, the Utah State Office of Education, and awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Hinton Burdick, PLLC".

HintonBurdick, PLLC
November 16, 2012



IRON COUNTY SCHOOL DISTRICT
Findings and Recommendations
For the Year Ended June 30, 2012

Honorable Board of Education
Iron County School District
Cedar City, Utah

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, we noted a few areas needing corrective action for the School District to be in compliance with State laws and regulations.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

Material Weakness:

None Noted

Significant Deficiency:

None Noted

COMPLIANCE AND OTHER MATTERS:

Compliance:

12-01. Cash Management – Timely Deposits

Finding

State Law requires that funds be deposited daily, whenever practicable, but not later than three business days after receipt. We noted that in at least one instance activity funds collected by one of the schools were not deposited within the required time.

Recommendation

We recommend that the District reinforce the importance of following controls that are in place to ensure that all funds are deposited within three business days of receipt.

12-02. Budgetary Compliance – Notice of Budget Hearing

Finding

State law requires that notice of the public hearing to consider the adoption of the budget be published at least seven days prior to the hearing. We noted that the notice of the public hearing to consider the adoption of the District's budget was posted only six days prior to the date of the hearing.

Recommendation

We recommend that the District comply with State budgetary laws and ensure that proper notice of the public hearing to consider adoption of the budget be given at least seven days prior to the hearing.

Other Matters:

None Noted.

Please respond to the above Findings and Recommendations in letter form..

The Iron County School District's written response[s] to the compliance findings identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it [them].

This letter is intended solely for the use of the Board, management and various federal and state agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

It has been a pleasure to be of service to the District this past year. We would like to express special thanks to each of you who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it necessary and we look forward to a continued pleasant, professional relationship.

Sincerely,



HintonBurdick, PLLC
St. George, Utah
November 16, 2012



IRON COUNTY SCHOOLS

CREATING A BETTER TOMORROW FOR ALL

2077 W. Royal Hunte Dr. • Cedar City, Utah 84720
(435) 586-2804 • Fax (435) 586-2815 • www.irondistrict.org

November 28, 2012

Utah State Auditor
211 State Capitol
Salt Lake City, Utah 84114

RE: Response to Audit Recommendations

We have received the management letter from our independent auditors and are responding to their suggestions as follows:

12-01. Cash Management – Timely Deposits

We will hold a training meeting with our school secretaries regarding timely deposits. They have been trained previously regarding this issue but it is always good to remind them of the legal requirements regarding timely deposits and emphasize the importance of following controls that are in place to ensure that deposits are made in a timely manner.

12-02. Budgetary Compliance – Notice of Budget Hearing

We understand and will comply with the notice of budget hearing being published at least seven days prior to the hearing. We are fully aware of this law and have always tried to make sure it is complied with. We don't know where the breakdown or miscommunication happened that caused us to miss the publication by one day. We will make sure in the future we allow adequate time for the notice to reach the newspaper and be published so we are in compliance with the requirements of state law.

Sincerely,

Kent F. Peterson
School Business Administrator