

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL  
DISTRICT

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

June 30, 2009

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Independent Auditor's Report

To the Board of Education of  
Marcus-Meriden-Cleghorn Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Marcus-Meriden-Cleghorn Community School District, Marcus, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, the business type activities, each major fund and the aggregate remaining fund information of Marcus-Meriden-Cleghorn Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated March 16, 2010, on our consideration of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 14 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marcus-Meriden-Cleghorn Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

March 16, 2010

## Management Discussion and Analysis

The Marcus-Meriden-Cleghorn Community School District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow this section.

### Financial Highlights

- The District spent \$29,924 more than it received; therefore the General Fund ending fund balance went from \$363,917 to \$333,993.
- Declining enrollment and low allowable growth contributed to a downturn in the District's financial position. The District's solvency ratio remains healthy at 6.01% and while the cash balance of \$737,512 for the general fund remains adequate, the district will need to take steps to balance its budget in order to remain able to meet its obligations without borrowing money.
- The district voted on, and passed a bond referendum to fund a building project that includes an on-site kitchen facility, classrooms and a community weight room and will connect the two buildings at the Marcus campus. The bonds were sold in December of 2006 and work on the project began in the spring of 2007. The kitchen/weight room was completed and fully functional for the 2008-2009 school year.

### Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short- and long-term* financial information about the activities the District operates *like businesses*, such as food services.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

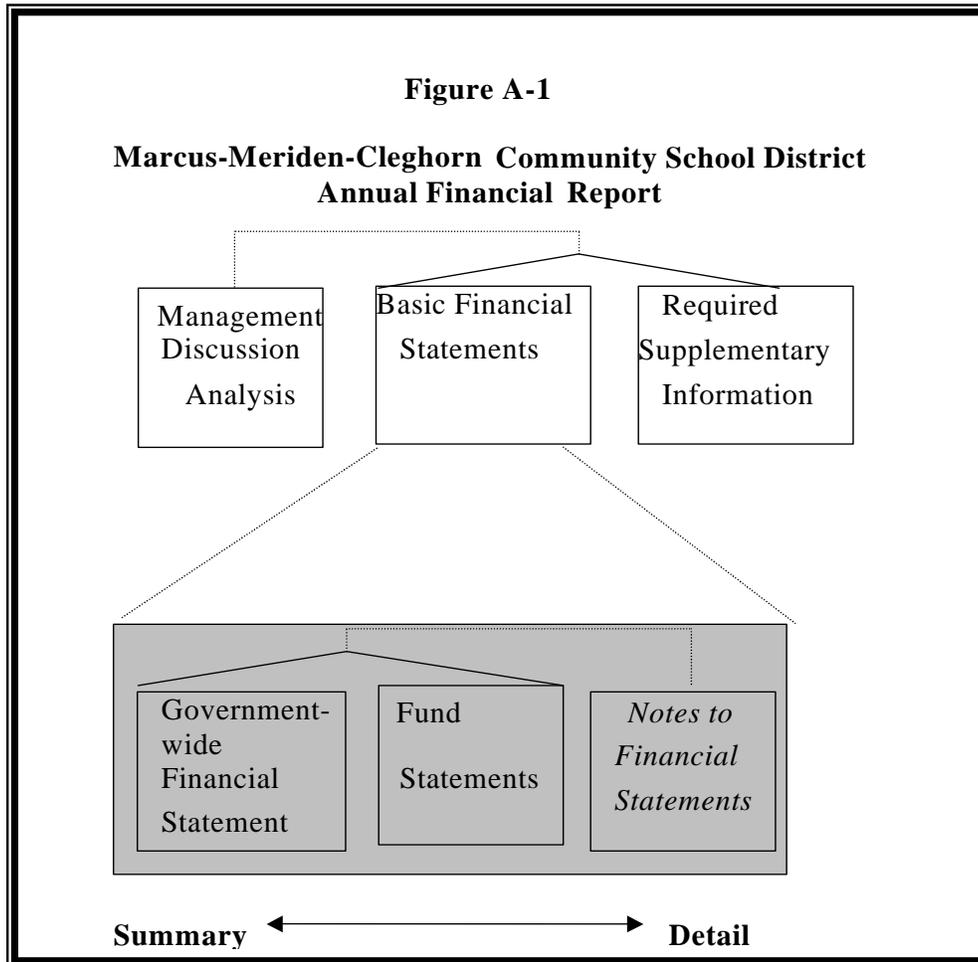


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

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

### **Government-wide Financial Statements**

The Government-wide statements report information about the district as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's

revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

## **Fund Financial Statements**

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. The District uses an internal service fund to account for its employee flexible benefit plan.

### Financial Analysis of the District as a Whole

**Net assets** – Figure A-3 below provides a summary of the District's net assets for the years ended June 30, 2008 and June 30, 2009

	Governmental Activities		Business-type Activities		District Total	
	2008	2009	2008	2009	2008	2009
Current and other assets	\$ 5,189,061	\$ 5,430,376	\$ (2,689)	\$ 4,492	\$ 5,186,372	\$ 5,434,868
Capital Assets	3,821,196	3,810,153	26,330	66,689	3,847,526	3,876,842
<b>Total assets</b>	<b>9,010,257</b>	<b>9,240,529</b>	<b>23,641</b>	<b>71,181</b>	<b>9,033,898</b>	<b>9,311,710</b>
Long-term debt outstanding	2,804,332	2,666,653	-	-	2,804,332	2,666,653
Other liabilities	3,171,503	3,356,526	3,865	3,568	3,175,368	3,360,094
<b>Total liabilities</b>	<b>5,975,835</b>	<b>6,023,179</b>	<b>3,865</b>	<b>3,568</b>	<b>5,979,700</b>	<b>6,026,747</b>
Net Assets:						
Invested in capital assets, net of related debt	1,590,290	1,594,647	26,330	66,689	1,616,620	1,661,336
Restricted	928,050	1,118,390	-	-	928,050	1,118,390
Unrestricted	516,082	504,313	(6,554)	924	509,528	505,237
<b>Total net assets</b>	<b>3,034,422</b>	<b>3,217,350</b>	<b>19,776</b>	<b>67,613</b>	<b>3,054,198</b>	<b>3,284,963</b>

The District's total net assets increased by 7.56% or approximately \$230,000 from fiscal year 2008 to 2009. The increase is mainly due to the issuance of the construction bonds and the completion of the construction project.

The portion of the District's net assets identifies as invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt increased by \$44,716. Most of this increase is attributable to the completion of the construction project.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased by approximately \$190,000 or 20.51% over the prior year. The increase is a result of sales taxes revenue collected, but not spent and an increase in categorical funding.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements, decreased approximately \$4,300, or 0.84%. This reduction was a result of using carryover fund balance to meet financial obligations during the year.

Long Term Debt decreased because of the repayment of the bond for the construction project.

The net asset increase in the business-type activities can be attributed to the completion of the kitchen/weight room project and the capitalization of those assets.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the years ended June 30, 2008 and June 30, 2009.

**Figure A-4**

Changes in Net Assets from Operating Results for the years ending June 30, 2008 and 2009

Revenues	Governmental Activities		Business-type Activities		School District Total	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2007</u>	<u>2009</u>
Program revenues						
Charges for services	\$ 265,926	\$ 253,853	\$ 118,128	\$ 132,310	\$ 384,054	\$ 386,163
Operating Grants & Contributions	604,576	715,858	68,800	75,987	673,376	791,845
Capital Grants & Contributions	95,377	17,770	-	-	95,377	17,770
General revenues						
Property and Other Local taxes	2,681,615	2,796,782	-	-	2,681,615	2,796,782
Unrestricted state grants	1,723,066	1,365,600	-	-	1,723,066	1,365,600
Other	35,669	128,912	124	84	35,793	128,996
Transfers	(13,678)	(48,064)	13,678	48,064	-	-
<b>Total revenues</b>	<b>5,392,551</b>	<b>5,230,711</b>	<b>200,730</b>	<b>256,445</b>	<b>5,593,281</b>	<b>5,487,156</b>
<b>Expenses</b>						
Instruction	3,301,662	2,981,364	-	-	3,301,662	2,981,364
Support Services:						
Administrative & Business	538,827	545,343	-	-	538,827	545,343
Maintenance & Operations	466,243	457,960	-	-	466,243	457,960
Other Support Services	456,050	525,899	-	-	456,050	525,899
Non-Instructional Programs	-	-	205,651	208,608	205,651	208,608
Other Expenditures	451,508	537,217	-	-	451,508	537,217
<b>Total expenses</b>	<b>5,214,290</b>	<b>5,047,783</b>	<b>205,651</b>	<b>208,608</b>	<b>5,419,941</b>	<b>5,256,391</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 178,261</b>	<b>\$ 182,928</b>	<b>\$ (4,921)</b>	<b>\$ 47,837</b>	<b>\$ 173,340</b>	<b>\$ 230,765</b>

Figure A-5

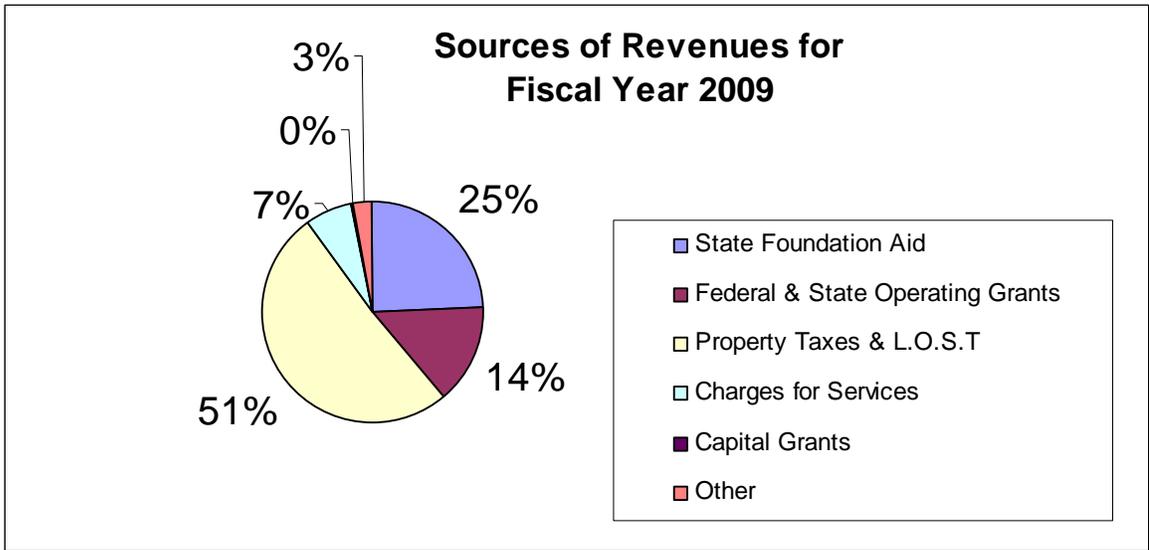
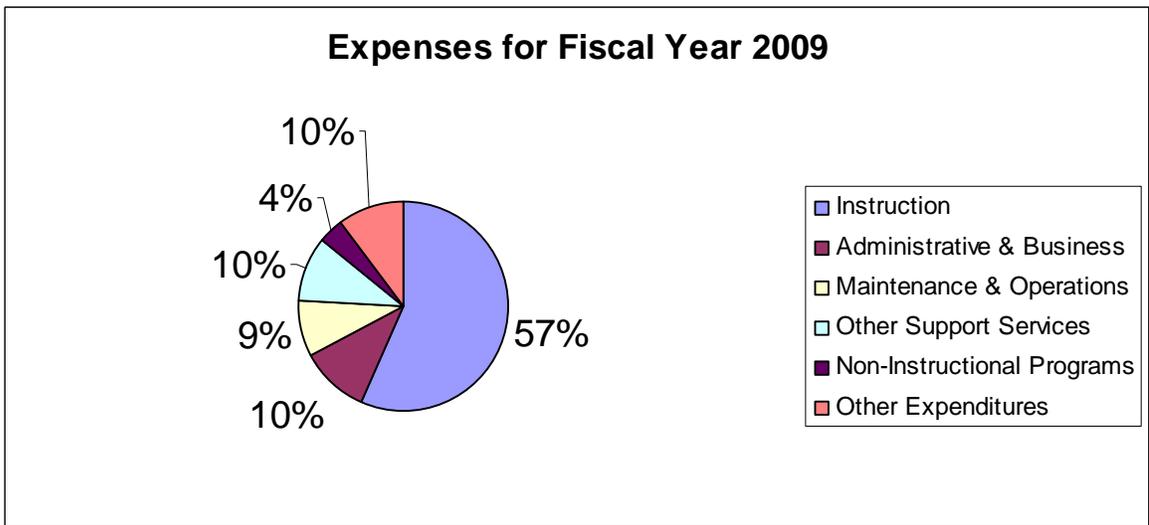


Figure A-6



Figures A-5 and A-6 provide a visual breakdown of the sources of revenues and areas of expenditures for the data from Figure A-4.

**Governmental Activities**

Figure A-7 presents the cost of three major district activities: instruction; support services: administrative and business, maintenance and operations, other; and other expenditures. The table also shows each activity’s *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District’s taxpayers by each of these functions.

**Figure A-7  
Net Cost of Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2008	2009	2008	2009
Instruction	\$ 3,301,662	\$ 2,981,364	\$ 2,614,404	\$ 2,198,167
Support Services:				
Administration & Business	538,827	545,343	538,827	545,343
Maintenance & Operations	466,243	457,960	465,457	457,150
Other Support Services	456,050	525,899	455,496	524,439
Other Expenditures	451,508	537,217	174,227	335,203
<b>Total</b>	<b>\$ 5,214,290</b>	<b>\$ 5,047,783</b>	<b>\$ 4,248,411</b>	<b>\$ 4,060,302</b>

- The cost of all governmental activities this year was \$5,047,783.
- \$253,853 of the cost was financed by the users of the District’s programs (see Figure A-4)
- The federal and state governments subsidized certain programs with grants and contributions of \$715,858.
- Most of the District’s \$4,060,302 of net costs, however, were financed by the District and state taxpayers.
- This portion of governmental activities was financed with \$2,796,782 in property and other local taxes, \$1,365,600 of unrestricted state grants based on the statewide finance formula, and investment earnings.

### **Business-Type Activities**

Revenues of the District’s business-type activities (school food and nutrition services) totaled \$256,445 and expenses totaled \$208,608. (Refer to Figure A-4.) Factors contributing to these results are as follows: Business-type activity revenues exceeded expenses by \$47,837. Continuation of the ala carte menu, charging for second entrees, an increase in meal prices, and the completion of the kitchen construction project allowed us to cut costs to generate a surplus. The District continues to look at ways to generate more revenue in this area to finance the rising costs of operation.

### **Financial Analysis of the District’s Funds**

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

## **Governmental Funds**

The District's General Fund cash position decreased significantly due to 2% allowable growth from the state combined with declining enrollment and budget cuts that do not cover the change in revenues. As mentioned previously, deeper cuts are necessary for the District to remain financially sound.

The Management Levy increased its cash position after another increase in the levy. The increase was necessary in order to cover the increased property/liability costs for the District. The increased levy was short of expenditures in this fund for the fiscal year 2009. The fund had a decrease of approximately \$3,200 and lowered the ending cash balance to \$154,534.

The Capital Projects Fund was new in 2005 and continues to be used to account for the proceeds from and expenditures of sales tax revenues. There were no expenditures in 2005 or 2006; the monies were being accumulated for capital improvements-namely the construction of a kitchen between the primary and high school buildings in Marcus. The sale of the bonds for that project occurred in Dec. of 2006 with work on the project beginning in the spring of 2007. The project has since been completed and was in full operational capacity for the 2008-2009 fiscal year.

## **Proprietary Funds**

The School Nutrition Fund reported a \$47,837 increase in net assets due to the completion of the construction process and the transfer of equipment to the Nutrition Fund.

## **Budgetary Highlights**

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

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

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

## Capital Asset and Debt Administration

### Capital Assets

By the end of 2009, the District had invested \$3,876,842, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, transportation equipment and administrative offices. The decrease was due to the completion of the construction project, which caused the accumulated depreciation to increase. (See Figure A-8) (More detailed information about capital assets can be found in Note 6 to the financial statements.) Total depreciation expense for the year was \$191,501.

**Figure A-8**  
**Capital Assets, Net of Accumulated Depreciation**

	Governmental Activities		Business-Type Activities		Total School District	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
Land	\$ 11,900	\$ 11,900	\$ -	\$ -	\$ 11,900	\$ 11,900
Construction in progress	\$ 2,928,602	\$ -	\$ -	\$ -	\$ 2,928,602	\$ -
Buildings & Improvements	\$ 742,847	\$ 3,678,284	\$ -	\$ -	\$ 742,847	\$ 3,678,284
Equipment & Fixtures	\$ 137,847	\$ 119,969	\$ 26,330	\$ 66,689	\$ 164,177	\$ 186,658
	<u>\$ 3,821,196</u>	<u>\$ 3,810,153</u>	<u>\$ 26,330</u>	<u>\$ 66,689</u>	<u>\$ 3,847,526</u>	<u>\$ 3,876,842</u>

### Long-Term Debt

At year-end, the District had \$2,660,000 in general obligation bonds and \$96,189 in other long-term debt outstanding in Figure A-9 below.

**Figure A-9**  
**Outstanding Long-Term Debt**

	Total School District	
	<u>2008</u>	<u>2009</u>
General Obligation Bonds	\$ 2,765,000	\$ 2,660,000
Early Retirement Benefits Payable	\$ 125,186	\$ 96,189
Total	<u>\$ 2,890,186</u>	<u>\$ 2,756,189</u>

## **Factors Bearing on the District's Future**

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

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national and state economy. State funding growth for public schools for fiscal year 2009 has been set at 4%, but was only funded at 2%. There was also a 10% across the board cut made in October 2009, which will have a negative impact on our revenue from the State in fiscal year 2010.
- District budget enrollment decreased for the 2008 count and will see an increase of 12 students on the 2009 count which will have a positive impact for the fiscal year 2011 budget. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Joe Mohning, Business Manager, Marcus-Meriden-Cleghorn Community School District, 400 E Fenton St, PO Box 667, Marcus, IA 51035.

## BASIC FINANCIAL STATEMENTS

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	311,861	-	311,861
Other	2,277,462	10,175	2,287,637
Receivables:			
Property tax:			
Delinquent	27,753	-	27,753
Succeeding year	2,395,325	-	2,395,325
Accounts	2,231	-	2,231
Accrued interest - ISCAP	39	-	39
Due from other governments	338,885	-	338,885
Interfund receivable/payable	10,700	(10,700)	-
Inventories	-	5,017	5,017
Prepaid expenses	3,285	-	3,285
Unamortized bond issue costs	62,835	-	62,835
Capital assets, net of accumulated depreciation	3,810,153	66,689	3,876,842
<b>Total assets</b>	<b>9,240,529</b>	<b>71,181</b>	<b>9,311,710</b>
<b>Liabilities</b>			
Accounts payable	112,202	-	112,202
Salaries and benefits payable	329,396	782	330,178
Accrued interest payable	18,842	-	18,842
Deferred revenue:			
Succeeding year property tax	2,395,325	-	2,395,325
Other	52,075	2,786	54,861
ISCAP warrants payable	307,000	-	307,000
ISCAP accrued interest payable	105	-	105
ISCAP premium	5,943	-	5,943
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	110,000	-	110,000
Termination benefits	25,638	-	25,638
Portion due after one year:			
General obligation bonds payable	2,550,000	-	2,550,000
Bond premium	46,102	-	46,102
Termination benefits	70,551	-	70,551
<b>Total liabilities</b>	<b>6,023,179</b>	<b>3,568</b>	<b>6,026,747</b>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,594,647	66,689	1,661,336
Restricted for:			
Categorical funding	76,095	-	76,095
Management levy	58,345	-	58,345
Physical plant and equipment levy	347,084	-	347,084
Other special revenue purposes	71,362	-	71,362
Sales tax capital projects	565,504	-	565,504
Unrestricted	504,313	924	505,237
<b>Total net assets</b>	<u>3,217,350</u>	<u>67,613</u>	<u>3,284,963</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants, Contributions and Restricted Interest</b>	<b>Capital Grants, Contributions and Restricted Interest</b>
	\$	\$	\$	\$
<b>Governmental activities:</b>				
<b>Instruction:</b>				
Regular	2,038,651	127,394	453,608	-
Special	428,166	5,324	42,080	-
Other	514,547	120,325	34,466	-
	<u>2,981,364</u>	<u>253,043</u>	<u>530,154</u>	<u>-</u>
<b>Support services:</b>				
Student	146,292	-	-	-
Instructional staff	140,876	-	-	-
Administration	545,343	-	-	-
Operation and maintenance of plant	457,960	810	-	-
Transportation	238,731	-	1,460	-
	<u>1,529,202</u>	<u>810</u>	<u>1,460</u>	<u>-</u>
<b>Other expenditures:</b>				
Facilities acquisition	99,414	-	-	17,770
Long-term debt interest	114,257	-	-	-
AEA flowthrough	184,244	-	184,244	-
Depreciation (unallocated)*	139,302	-	-	-
	<u>537,217</u>	<u>-</u>	<u>184,244</u>	<u>17,770</u>
<b>Total governmental activities</b>	<b>5,047,783</b>	<b>253,853</b>	<b>715,858</b>	<b>17,770</b>
<b>Business type activities:</b>				
<b>Non-instructional programs:</b>				
Food service operations	208,608	132,310	75,987	-
<b>Total</b>	<b>5,256,391</b>	<b>386,163</b>	<b>791,845</b>	<b>17,770</b>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
<b>Total general revenues</b>				
<b>Transfers</b>				
<b>Total general revenues and transfers</b>				
<b>Change in net assets</b>				
Net assets beginning of year				
Net assets end of year				

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental</u>	<u>Business</u>	
<u>Activities</u>	<u>Type Activities</u>	<u>Total</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
(1,457,649)	-	(1,457,649)
(380,762)	-	(380,762)
(359,756)	-	(359,756)
<u>(2,198,167)</u>	<u>-</u>	<u>(2,198,167)</u>
(146,292)	-	(146,292)
(140,876)	-	(140,876)
(545,343)	-	(545,343)
(457,150)	-	(457,150)
(237,271)	-	(237,271)
<u>(1,526,932)</u>	<u>-</u>	<u>(1,526,932)</u>
(81,644)	-	(81,644)
(114,257)	-	(114,257)
-	-	-
<u>(139,302)</u>	<u>-</u>	<u>(139,302)</u>
<u>(335,203)</u>	<u>-</u>	<u>(335,203)</u>
(4,060,302)	-	(4,060,302)
-	(311)	(311)
<u>(4,060,302)</u>	<u>(311)</u>	<u>(4,060,613)</u>
2,037,907	-	2,037,907
199,301	-	199,301
251,692	-	251,692
307,882	-	307,882
1,344,740	-	1,344,740
20,860	84	20,944
128,912	-	128,912
4,291,294	84	4,291,378
<u>(48,064)</u>	<u>48,064</u>	<u>-</u>
<u>4,243,230</u>	<u>48,148</u>	<u>4,291,378</u>
182,928	47,837	230,765
3,034,422	19,776	3,054,198
<u>3,217,350</u>	<u>67,613</u>	<u>3,284,963</u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2009

	General Fund	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments:					
ISCAP	311,861	-	-	-	311,861
Other	737,512	962,102	350,468	227,248	2,277,330
Receivables:					
Property tax:					
Delinquent	24,106	-	2,400	1,247	27,753
Succeeding year	2,029,922	-	215,403	150,000	2,395,325
Accounts	-	-	-	2,231	2,231
Accrued interest - ISCAP	39	-	-	-	39
Interfund receivable	10,700	-	-	180	10,880
Prepaid expenses	-	-	-	3,285	3,285
Due from other governments	269,878	47,896	21,111	-	338,885
<b>Total assets</b>	<b>3,384,018</b>	<b>1,009,998</b>	<b>589,382</b>	<b>384,191</b>	<b>5,367,589</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	81,007	-	26,895	4,300	112,202
Salaries and benefits payable	329,396	-	-	-	329,396
Interfund payable	180	-	-	-	180
ISCAP warrants payable	307,000	-	-	-	307,000
ISCAP accrued interest payable	105	-	-	-	105
ISCAP premium	5,943	-	-	-	5,943
Deferred revenue:					
Succeeding year property tax	2,029,922	-	215,403	150,000	2,395,325
Income surtax	190,001	-	21,111	-	211,112
Other	106,471	-	-	-	106,471
Total liabilities	<b>3,050,025</b>	<b>-</b>	<b>263,409</b>	<b>154,300</b>	<b>3,467,734</b>
Fund balances:					
Reserved for:					
Categorical funding	76,095	-	-	-	76,095
Debt service	-	-	-	3,995	3,995
Unreserved reported in:					
General fund	257,898	-	-	-	257,898
Special revenue funds	-	-	325,973	225,896	551,869
Capital projects funds	-	1,009,998	-	-	1,009,998
Total fund balances	<b>333,993</b>	<b>1,009,998</b>	<b>325,973</b>	<b>229,891</b>	<b>1,899,855</b>
<b>Total liabilities and fund balances</b>	<b>3,384,018</b>	<b>1,009,998</b>	<b>589,382</b>	<b>384,191</b>	<b>5,367,589</b>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2009

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,899,855
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,810,153
Unamortized bond issue costs are not financial resources and, therefore, are not reported as assets in the governmental funds.	62,835
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	265,508
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(18,842)
An Internal Service Fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the Internal Service Fund are included with governmental activities.	132
Long-term liabilities, including bonds payable, bond premiums and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,802,291)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>3,217,350</u></u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,141,659	307,882	221,968	100,255	2,771,764
Tuition	108,099	-	-	-	108,099
Other	37,232	23,551	3,254	133,922	197,959
State sources	1,871,082	-	110	57	1,871,249
Federal sources	134,953	-	-	-	134,953
Total revenues	<u>4,293,025</u>	<u>331,433</u>	<u>225,332</u>	<u>234,234</u>	<u>5,084,024</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,040,234	-	-	27,414	2,067,648
Special	428,166	-	-	-	428,166
Other	390,395	-	-	119,127	509,522
	<u>2,858,795</u>	<u>-</u>	<u>-</u>	<u>146,541</u>	<u>3,005,336</u>
Support services:					
Student	146,292	-	-	-	146,292
Instructional staff	140,876	-	-	-	140,876
Administration	502,746	-	-	35,596	538,342
Operation and maintenance of plant	401,276	-	-	45,296	446,572
Transportation	204,057	-	-	9,943	214,000
	<u>1,395,247</u>	<u>-</u>	<u>-</u>	<u>90,835</u>	<u>1,486,082</u>
Other expenditures:					
Facilities acquisition	-	107,570	212,616	-	320,186
Long-term debt:					
Principal	-	-	-	105,000	105,000
Interest and fiscal charges	-	-	-	117,712	117,712
AEA flowthrough	184,244	-	-	-	184,244
	<u>184,244</u>	<u>107,570</u>	<u>212,616</u>	<u>222,712</u>	<u>727,142</u>
Total expenditures	<u>4,438,286</u>	<u>107,570</u>	<u>212,616</u>	<u>460,088</u>	<u>5,218,560</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(145,261)</u>	<u>223,863</u>	<u>12,716</u>	<u>(225,854)</u>	<u>(134,536)</u>
Other financing sources (uses):					
Compensation for loss of fixed assets	115,337	-	-	-	115,337
Operating transfers in	-	-	-	222,712	222,712
Operating transfers out	-	(222,712)	-	-	(222,712)
Total other financing sources (uses)	<u>115,337</u>	<u>(222,712)</u>	<u>-</u>	<u>222,712</u>	<u>115,337</u>
Net change in fund balances	(29,924)	1,151	12,716	(3,142)	(19,199)
Fund balances beginning of year	<u>363,917</u>	<u>1,008,847</u>	<u>313,257</u>	<u>233,033</u>	<u>1,919,054</u>
Fund balances end of year	<u><u>333,993</u></u>	<u><u>1,009,998</u></u>	<u><u>325,973</u></u>	<u><u>229,891</u></u>	<u><u>1,899,855</u></u>

See notes to financial statements.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(19,199)
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	172,708	
Depreciation expense	<u>(183,751)</u>	(11,043)
Income surtaxes and other revenues not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		79,414
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		105,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		743
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		28,997
The premium on bonds issued is amortized over the life of the bonds for the Statement of Activities.		
		2,712
Bond issue costs are recorded as an expense for the governmental funds, but are capitalized and amortized over the life of the bonds for the Statement of Activities.		
		<u>(3,696)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>182,928</u></u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2009

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
<b>Assets</b>		
Cash and cash equivalents	10,175	132
Inventories	5,017	-
Capital assets, net of accumulated depreciation	<u>66,689</u>	<u>-</u>
<b>Total assets</b>	<u>81,881</u>	<u>132</u>
<b>Liabilities</b>		
Salaries and benefits payable	782	-
Deferred revenue	2,786	-
Interfund payable	<u>10,700</u>	<u>-</u>
<b>Total liabilities</b>	<u>14,268</u>	<u>-</u>
<b>Net assets</b>		
Invested in capital assets	66,689	-
Unrestricted	<u>924</u>	<u>132</u>
<b>Total net assets</b>	<u><u>67,613</u></u>	<u><u>132</u></u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
Operating revenues:		
Local sources:		
Charges for service	132,310	-
Operating expenses:		
Non-instructional programs:		
Salaries	79,811	-
Benefits	15,772	-
Purchased services	5,236	-
Supplies	99,971	-
Depreciation	7,705	-
Other	113	-
Total operating expenses	<u>208,608</u>	<u>-</u>
Operating gain (loss)	<u>(76,298)</u>	<u>-</u>
Non-operating revenues:		
State sources	2,415	-
Federal sources	73,572	-
Interest income	84	-
Total non-operating revenues	<u>76,071</u>	<u>-</u>
Gain (loss) before contributions	(227)	-
Capital contributions	<u>48,064</u>	<u>-</u>
Change in net assets	47,837	-
Net assets beginning of year	<u>19,776</u>	<u>132</u>
Net assets end of year	<u><u>67,613</u></u>	<u><u>132</u></u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2009

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	132,058	-
Cash payments to employees for services	(95,282)	-
Cash payments to suppliers for goods or services	(90,315)	-
Net cash used by operating activities	<u>(53,539)</u>	<u>-</u>
Cash flows from non-capital financing activities:		
State grants received	2,415	-
Federal grants received	60,133	-
Net cash provided by non-capital financing activities	<u>62,548</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	84	-
Net increase (decrease) in cash and cash equivalents	9,093	-
Cash and cash equivalents at beginning of year	1,082	132
Cash and cash equivalents at end of year	<u>10,175</u>	<u>132</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(76,298)	-
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	13,448	-
Depreciation	7,705	-
Decrease (increase) in inventories	1,889	-
Decrease (increase) in accounts receivable	14	-
(Decrease) increase in accounts payable	(332)	-
(Decrease) increase in salaries and benefits payable	301	-
(Decrease) increase in deferred revenue	(266)	-
Net cash used by operating activities	<u>(53,539)</u>	<u>-</u>

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

During the year ended June 30, 2009, the District received \$13,448 of federal commodities.

During the year ended June 30, 2009, the School Nutrition Fund received \$48,064 of equipment that was purchased by other funds.

# MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2009

### 1. Summary of Significant Accounting Policies

Marcus-Meriden-Cleghorn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Marcus, Meriden and Cleghorn Iowa and the predominately agricultural territory in a portion of Cherokee and Plymouth Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

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

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

#### B. Basis of Presentation

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

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

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

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

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

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

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

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	3,500
Improvements other than buildings	3,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	5-20 years
Furniture and equipment	5-12 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures in the non-instructional programs function exceeded the amount budgeted.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	<u>1,257,847</u>

The investment is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

### 3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Nonmajor – Student Activity	General Fund	180
General Fund	Nonmajor Enterprise – School Nutrition Fund	10,700

The General Fund loaned the Nutrition Fund money for cash flow.

### 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Governmental - Debt Service Fund	Capital Projects Fund	222,712

The transfer from the Capital Projects Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### 5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2009 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	<u>311,861</u>	<u>39</u>	<u>307,000</u>	<u>105</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2009, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2009-10A	2.500	0.902

## 6. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	2,928,602	-	2,928,602	-
Land	11,900	-	-	11,900
Total capital assets not being depr.	<u>2,940,502</u>	<u>-</u>	<u>2,928,602</u>	<u>11,900</u>
Capital assets being depreciated:				
Buildings	2,112,671	2,646,739	-	4,759,410
Improvements other than buildings	356,556	428,000	-	784,556
Furniture and equipment	854,869	26,571	-	881,440
Total capital assets being deprec.	<u>3,324,096</u>	<u>3,101,310</u>	<u>-</u>	<u>6,425,406</u>
Less accumulated depreciation for:				
Buildings	1,471,569	108,515	-	1,580,084
Improvements other than buildings	254,811	30,787	-	285,598
Furniture and equipment	717,022	44,449	-	761,471
Total accumulated depreciation	<u>2,443,402</u>	<u>183,751</u>	<u>-</u>	<u>2,627,153</u>
Total capital assets being depreciated, net	<u>880,694</u>	<u>2,917,559</u>	<u>-</u>	<u>3,798,253</u>
Governmental activities capital assets, net	<u>3,821,196</u>	<u>2,917,559</u>	<u>2,928,602</u>	<u>3,810,153</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	85,738	48,064	-	133,802
Less accumulated depreciation	<u>59,408</u>	<u>7,705</u>	-	<u>67,113</u>
Business type activities capital assets, net	<u>26,330</u>	<u>40,359</u>	-	<u>66,689</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Other	5,025
Support services:	
Administration services	3,305
Operation and maintenance of plant services	11,388
Transportation	<u>24,731</u>
	44,449
Unallocated depreciation	<u>139,302</u>
Total depreciation expense – governmental activities	<u>183,751</u>
Business type activities:	
Food services	<u>7,750</u>

## 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	2,765,000	-	105,000	2,660,000	110,000
Termination benefits	<u>125,186</u>	-	<u>28,997</u>	<u>96,189</u>	<u>25,638</u>
	<u>2,890,186</u>	-	<u>133,997</u>	<u>2,756,189</u>	<u>135,638</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees in prior years. Eligible employees must have completed at least fifteen years of consecutive service to the District and must have reached the age of fifty-seven on or before June 30 in the calendar year in which early retirement started.

At June 30, 2009, the District has obligations to five participants with a total liability of \$96,189. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$28,997.

## General Obligation Bonds Payable

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of December 2006</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2010	4.25	110,000	113,050	223,050
2011	4.25	115,000	108,375	223,375
2012	4.25	120,000	103,488	223,488
2013	4.25	125,000	98,388	223,388
2014	4.25	130,000	93,075	223,075
2015-2019	4.25	740,000	377,614	1,117,614
2020-2024	4.25	905,000	206,763	1,111,763
2025-2026	4.25	415,000	26,563	441,563
		<u>2,660,000</u>	<u>1,127,316</u>	<u>3,787,316</u>

### **8. Pension and Retirement Benefits**

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$166,305, \$164,532, and \$157,157 respectively, equal to the required contributions for each year.

### **9. Risk Management**

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

### **10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$184,244 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	3,077,822	132,394	3,210,216	3,202,217	3,202,217	7,999
State sources	1,871,249	2,415	1,873,664	2,011,527	2,011,527	(137,863)
Federal sources	134,953	73,572	208,525	235,000	235,000	(26,475)
Total revenues	<u>5,084,024</u>	<u>208,381</u>	<u>5,292,405</u>	<u>5,448,744</u>	<u>5,448,744</u>	<u>(156,339)</u>
<b>Expenditures/Expenses:</b>						
Instruction	3,005,336	-	3,005,336	3,439,667	3,439,667	434,331
Support services	1,486,082	-	1,486,082	1,565,750	1,565,750	79,668
Non-instructional programs	-	208,608	208,608	193,000	193,000	(15,608)
Other expenditures	727,142	-	727,142	1,097,341	1,097,341	370,199
Total expenditures/expenses	<u>5,218,560</u>	<u>208,608</u>	<u>5,427,168</u>	<u>6,295,758</u>	<u>6,295,758</u>	<u>868,590</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(134,536)	(227)	(134,763)	(847,014)	(847,014)	712,251
Other financing sources (uses) net	<u>115,337</u>	<u>48,064</u>	<u>163,401</u>	<u>500</u>	<u>500</u>	<u>162,901</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(19,199)	47,837	28,638	(846,514)	(846,514)	875,152
Balance beginning of year	<u>1,919,054</u>	<u>19,776</u>	<u>1,938,830</u>	<u>1,765,913</u>	<u>1,765,913</u>	<u>172,917</u>
Balance end of year	<u><u>1,899,855</u></u>	<u><u>67,613</u></u>	<u><u>1,967,468</u></u>	<u><u>919,399</u></u>	<u><u>919,399</u></u>	<u><u>1,048,069</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

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

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

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

During the year ended June 30, 2009, expenditures in the non-instructional programs function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2009

Assets	Special Revenue Funds				Total
	Management	Student	District	Debt	
	Levy	Activity	Support	Service	
	\$	\$	\$	\$	\$
Cash and pooled investments	150,819	68,460	3,974	3,995	227,248
Receivables:					
Property tax:					
Delinquent	1,247	-	-	-	1,247
Succeeding year	150,000	-	-	-	150,000
Accounts	-	2,231	-	-	2,231
Interfund receivable	-	180	-	-	180
Prepaid expenses	3,285	-	-	-	3,285
<b>Total assets</b>	<b>305,351</b>	<b>70,871</b>	<b>3,974</b>	<b>3,995</b>	<b>384,191</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	817	3,483	-	-	4,300
Deferred revenue:					
Succeeding year property tax	150,000	-	-	-	150,000
Total liabilities	150,817	3,483	-	-	154,300
Fund balances:					
Reserved for debt service	-	-	-	3,995	3,995
Unreserved reported in:					
Special revenue funds	154,534	67,388	3,974	-	225,896
Total fund balances	154,534	67,388	3,974	3,995	229,891
<b>Total liabilities and fund balances</b>	<b>305,351</b>	<b>70,871</b>	<b>3,974</b>	<b>3,995</b>	<b>384,191</b>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	District Support Trust	Debt Service	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	100,255	-	-	-	100,255
Other	14,733	118,765	424	-	133,922
State sources	57	-	-	-	57
Total revenues	<u>115,045</u>	<u>118,765</u>	<u>424</u>	<u>-</u>	<u>234,234</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	27,414	-	-	-	27,414
Other instruction	-	119,127	-	-	119,127
Support services:					
Administration services	35,596	-	-	-	35,596
Operation and maintenance of plant	45,296	-	-	-	45,296
Transportation services	9,943	-	-	-	9,943
Other expenditures:					
Long-term debt:					
Principal	-	-	-	105,000	105,000
Interest and fiscal charges	-	-	-	117,712	117,712
Total expenditures	<u>118,249</u>	<u>119,127</u>	<u>-</u>	<u>222,712</u>	<u>460,088</u>
Net change in fund balances	(3,204)	(362)	424	(222,712)	(225,854)
Other financing sources (uses):					
Operating transfers in	-	-	-	222,712	222,712
Net change in fund balances	(3,204)	(362)	424	-	(3,142)
Fund balances beginning of year	<u>157,738</u>	<u>67,750</u>	<u>3,550</u>	<u>3,995</u>	<u>233,033</u>
Fund balances end of year	<u><u>154,534</u></u>	<u><u>67,388</u></u>	<u><u>3,974</u></u>	<u><u>3,995</u></u>	<u><u>229,891</u></u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
Business club	2,926	1,162	1,478	-	2,610
Boys basketball	3,426	5,622	5,579	600	4,069
Football	4,881	8,287	9,840	1,050	4,378
Girls basketball	3,431	8,382	7,820	480	4,473
Baseball	(4,129)	7,599	7,096	660	(2,966)
Golf	245	-	120	750	875
Boys track	(854)	2,279	3,467	720	(1,322)
Girls track	108	2,819	2,867	480	540
Wrestling	(2,124)	1,616	3,826	360	(3,974)
Softball	6,569	5,587	8,280	750	4,626
Volleyball	2,716	5,605	5,129	1,020	4,212
Weight room	1	-	-	-	1
Yearbook	1,456	6,937	2,054	450	6,789
Pep/Jazz band	712	-	219	-	493
Vocal	249	-	1,088	-	(839)
Student council	1,373	6,490	7,365	-	498
Leadership club	588	5,082	2,198	-	3,472
PTSA	343	-	-	-	343
TSA	1,843	529	1,805	-	567
Speech	2,070	16	1,411	450	1,125
Cheerleaders	404	1,088	901	600	1,191
Art club	603	346	297	-	652
Drama club	840	1,070	170	-	1,740
Drill team	4,749	4,473	4,302	-	4,920
Spanish club	2,263	-	700	-	1,563
Library club	1,275	274	-	-	1,549
Video club	935	163	50	-	1,048
National Honor Society	307	855	960	-	202
Home economics	889	830	764	-	955
MMC marketing club	4,020	2,428	4,072	-	2,376
Lettermans club	10,110	13,084	6,512	(12,420)	4,262
Class of 2008	715	-	40	-	675
Class of 2009	1,256	-	1,135	-	121
Class of 2010	1,360	1,578	2,198	-	740
Class of 2011	600	580	-	-	1,180
Class of 2012	-	780	-	-	780
Character counts club	650	131	-	-	781
Home economics	248	-	-	-	248
Annual	1,045	-	-	-	1,045
MS vocal	544	195	295	-	444
MS athletics	(2,945)	2,638	6,299	1,500	(5,106)

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
MS plays	359	-	-	-	359
MS student council	9,687	3,811	3,608	-	9,890
Family communication	38	-	-	-	38
TSA	592	-	-	-	592
MS lettermans	1,167	-	-	-	1,167
Elementary library club	1,104	-	72	-	1,032
Elementary activities	(319)	-	-	-	(319)
Kathy's Kids	2,490	7,390	7,780	-	2,100
Co-Curricular music	(1,047)	14	324	2,550	1,193
Science club	-	4,077	4,077	-	-
Odyssey of the mind	-	4,948	4,948	-	-
June 30, 2008 accruals	(2,019)	-	(2,019)	-	-
Totals	<u>67,750</u>	<u>118,765</u>	<u>119,127</u>	<u>-</u>	<u>67,388</u>

## MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	2,771,764	2,658,572	2,441,309	2,456,381	2,453,453	2,440,231
Tuition	108,099	120,433	118,182	119,589	151,067	126,867
Other	197,959	281,187	311,809	211,633	205,012	222,319
State sources	1,871,249	2,145,836	2,252,263	2,025,513	2,225,828	1,841,556
Federal sources	134,953	142,060	184,381	186,720	221,771	98,990
Total revenues	<u>5,084,024</u>	<u>5,348,088</u>	<u>5,307,944</u>	<u>4,999,836</u>	<u>5,257,131</u>	<u>4,729,963</u>
Expenditures:						
Instruction:						
Regular	2,067,648	2,183,502	2,203,337	2,211,222	2,101,243	2,171,633
Special	428,166	632,698	558,010	542,040	469,336	642,272
Other	509,522	478,531	537,800	536,757	537,082	393,645
Support services:						
Student	146,292	143,693	135,050	122,808	118,025	118,156
Instructional staff	140,876	68,179	93,390	80,638	128,593	85,520
Administration	538,342	531,691	590,186	538,965	493,963	479,096
Operation and maintenance	446,572	456,669	361,244	367,876	355,548	367,319
Transportation	214,000	285,824	197,448	211,876	247,936	184,288
Non-instructional programs	-	-	-	16,031	-	-
Other expenditures:						
Facilities acquisition	320,186	2,680,970	464,520	119,032	219,509	315,644
Long-term debt:						
Principal	105,000	55,000	-	-	-	-
Interest and other charges	117,712	169,787	-	-	-	-
AEA flowthrough	184,244	181,904	179,599	172,997	174,587	171,131
Total expenditures	<u>5,218,560</u>	<u>7,868,448</u>	<u>5,320,584</u>	<u>4,920,242</u>	<u>4,845,822</u>	<u>4,928,704</u>

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

To the Board of Education of  
Marcus-Meriden-Cleghorn Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marcus-Meriden-Cleghorn Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 16, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Marcus-Meriden-Cleghorn Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Marcus-Meriden-Cleghorn Community School District's financial statements that is more than inconsequential will not be prevented or detected by Marcus-Meriden-Cleghorn Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Marcus-Meriden-Cleghorn Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 09-I-A, 09-I-B and 09-I-C are material weaknesses.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Marcus-Meriden-Cleghorn Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Marcus-Meriden-Cleghorn Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Marcus-Meriden-Cleghorn Community School District and other parties to whom Marcus-Meriden-Cleghorn Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

March 16, 2010

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to Financial Statements:

Significant deficiencies:

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

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

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

Conclusion: Response accepted.

09-I-B Financial Reporting: During the audit, we identified material amounts of receivables, ISCAP transactions and capital assets additions not recorded in the District's financial records. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation: The District should implement procedures to ensure all receivables, payables and capital assets additions are identified and included in the District's financial statements.

District Response: We will double check these in the future to avoid missing any receivables, payables or capital asset transactions.

Conclusion: Response accepted.

09-I-C Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part I: Findings Related to Financial Statements (continued):

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

09-I-D School Expenditure Supporting Documentation: During our testing of District expenditures we noted three Student Activity Fund disbursements that did not have supporting documentation.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

District Response: We obtain sufficient documentation for all expenditures.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009, exceeded the amount budgeted in the non-instructional programs function.

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

District Response: We will amend future budgets before expenditures exceed the budget.

Conclusion: Response accepted.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Jerry Moser, Board Member	Athletic Official	275
Steve Little, Employee, Owner of S & R Farms	Spraying	4,549

These transactions do not appear to be conflicts of interest. The District may do business with board members if the amount is less than \$2,500 or if the job is bid.

09-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

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

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

09-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

09-II-I Certified Annual Report: The Certified Annual Report was not certified to the Iowa Department of Education by the October 15, 2009 due date. We noted no significant deficiencies in the amounts reported.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

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

Recommendation: In the future, the District should ensure the Certified Annual Report is timely certified to the Iowa Department of Education.

District Response: We will do so in the future.

Conclusion: Response accepted.

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

We did note that the District received \$136,824 of funding for the Returning Dropout and Dropout Prevention Program, but no expenditures were charged to the program and the entire amount was reported in the June 30, 2009 reserved fund balance on the CAR (certified annual report). Further investigation revealed \$119,198 of Returning Dropout and Dropout Prevention expenditures that were miscoded.

According to proposed administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred. The District should contact the Iowa Department of Education to determine the corrective action needed to adjust the reserved fund balance for the Returning Dropout and Dropout Prevention Program.

Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred and we will contact the Iowa Department of Education.

Conclusion: Response accepted.

09-II-K Statewide Sales and Services Tax: No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

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

Beginning balance	\$	\$	-
Statewide sales and services tax revenue			307,882
Expenditures/transfers out:			
School infrastructure:			
Buildings and building improvements	200		
Debt service for school infrastructure:			
General obligation debt	<u>222,712</u>	<u>222,912</u>	
Ending balance			<u>84,970</u>

09-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We are reviewing the accounts and making the necessary adjustments.

Conclusion: Response accepted.

09-II-M Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2009.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

09-II-N Physical Plant and Equipment Levy Fund Expenditures (PPEL): The PPEL property tax levy may be spent to purchase and improve grounds; to construct buildings; to purchase or lease a single unit of equipment or technology exceeding \$500 in value per unit; to repair, remodel improve, or expand buildings; for energy conservation; and to purchase transportation equipment.

We noted that the District used the PPEL Fund to pay \$610 for kitchen equipment repairs and \$4,371 for bus repairs. These items do not appear to be allowable from the PPEL Fund.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2009

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

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund. The General Fund should reimburse the PPEL Fund for these expenditures.

District Response: We will monitor expenditures from the PPEL Fund and make the reimbursement.

Conclusion: Response accepted.