

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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Marshalltown Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2009 Election)</b>		
Pam Swarts	President	2009
Kay Beach	Vice President	2011
Paul Gassman	Board Member	2011
Anne Paullus	Board Member	2011
Richard Hessenius	Board Member	2009
Jay Merryman	Board Member	2011
Dean Stucky	Board Member	2009
<b>Board of Education (After September 2009 Election)</b>		
Kay Beach	President	2011
Jay Merryman	Vice President	2011
Paul Gassman	Board Member	2011
Anne Paullus	Board Member	2011
Richard Hessenius	Board Member	2013
Larry Schrum	Board Member	2013
Jennifer Wilson	Board Member	2013
<b>School Officials</b>		
Dr. Marvin L. Wade, Jr.	Superintendent	2010
Kevin Posekany	District Secretary/ Director of Finance	2010
Rex J. Ryden, Cartwright, Druker, & Ryden	Attorney	2010
Ahlers & Cooney, P.C.	Attorney	2010

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Marshalltown 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 the Marshalltown Community School District, Marshalltown, Iowa as of and for the year ended June 30, 2010, 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.

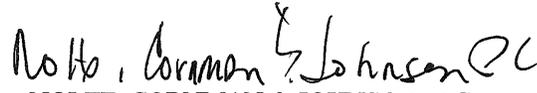
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 the Marshalltown Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 4, 2011 on our consideration of the Marshalltown Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 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 Marshalltown 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 six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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.

  
NOLTE, CORNMAN & JOHNSON, P.C.

January 4, 2011

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Marshalltown Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$48,939,020 in fiscal 2009 to \$47,227,478 in fiscal 2010, while General Fund expenditures increased from \$47,121,963 in fiscal 2009 to \$48,956,797 in fiscal 2010. The overall result was a decrease in the District's General Fund balance from \$5,539,352 in fiscal 2009 to \$3,810,033 in fiscal 2010, a 31.22% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state grant and state aid revenue in fiscal 2010. The increase in expenditures was due primarily to an increase in the instruction functional area. The reason the General Fund balance decreased is because the increase in expenditures was more than the increase in revenues for fiscal 2010.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

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

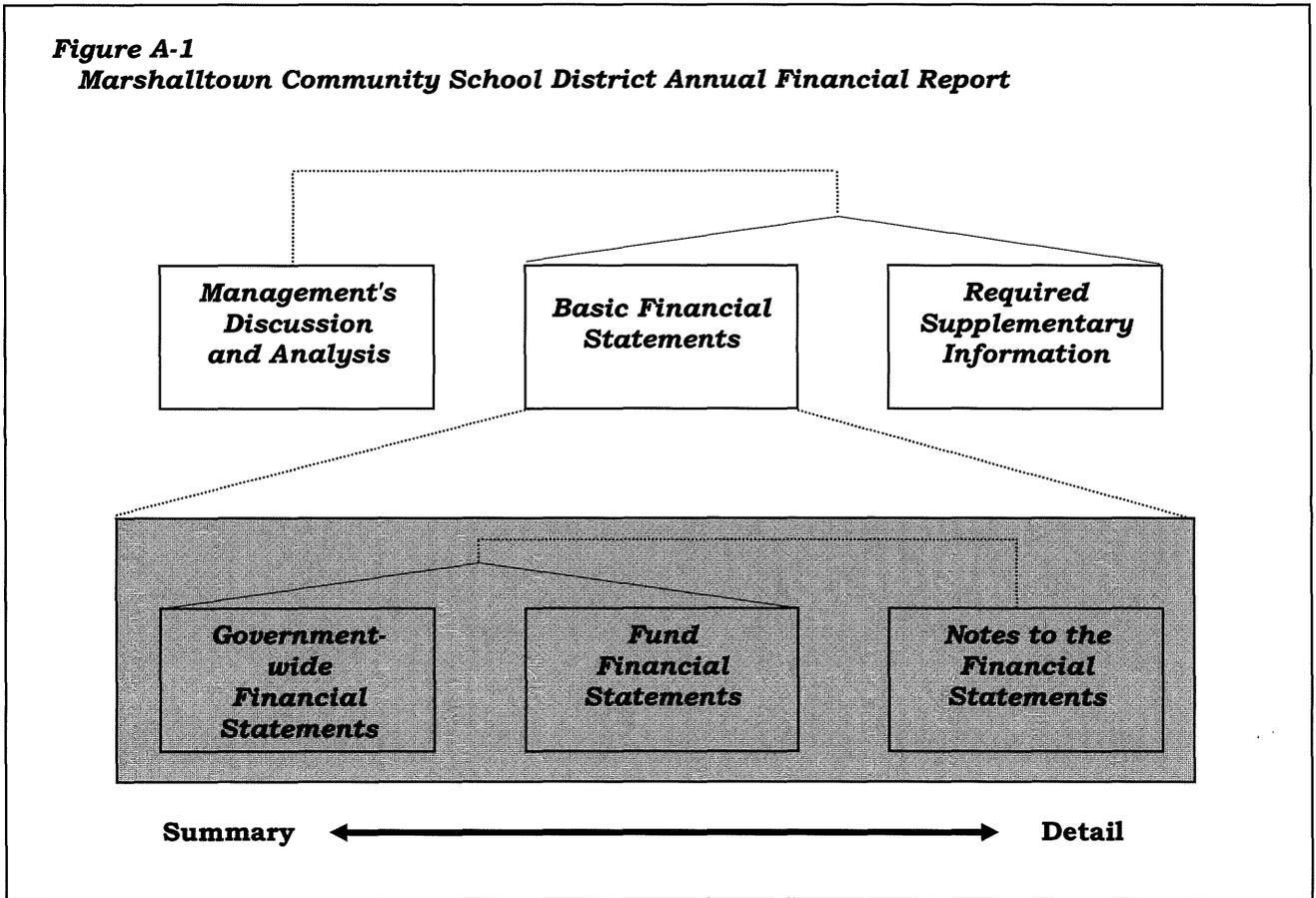


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</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 resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

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

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net 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 financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

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

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

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

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

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 36,218,641	41,560,400	502,183	395,438	36,720,824	41,955,838	-12.48%
Capital assets	41,488,883	42,109,519	342,741	234,751	41,831,624	42,344,270	-1.21%
Total assets	77,707,524	83,669,919	844,924	630,189	78,552,448	84,300,108	-6.82%
Long-term liabilities	27,676,784	28,426,058	7,457	3,862	27,684,241	28,429,920	-2.62%
Other liabilities	22,685,451	27,544,858	38,000	43,821	22,723,451	27,588,679	-17.63%
Total liabilities	50,362,235	55,970,916	45,457	47,683	50,407,692	56,018,599	-10.02%
Net assets:							
Invested in capital assets, net of related debt	17,418,883	16,924,519	342,741	234,751	17,761,624	17,159,270	3.51%
Restricted	6,698,509	6,243,808	-	-	6,698,509	6,243,808	7.28%
Unrestricted	3,227,897	4,530,676	456,726	347,755	3,684,623	4,878,431	-24.47%
Total net assets	\$ 27,345,289	27,699,003	799,467	582,506	28,144,756	28,281,509	-0.48%

The District's combined net assets decreased by 0.48%, or \$136,753, from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$454,701, or 7.28% from the prior year. The increase was primarily the result of the increase in the Debt Service Fund balance during the year.

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 \$1,193,808, or 24.47%. This decrease in unrestricted net assets was primarily a result of the decrease in the fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 1,859,451	2,033,112	728,833	822,816	2,588,284	2,855,928	-9.37%
Operating grants and contributions and restricted interest	11,287,461	8,200,813	1,815,175	1,553,934	13,102,636	9,754,747	34.32%
General revenues:							
Property tax	15,741,594	15,289,436	-	-	15,741,594	15,289,436	2.96%
Statewide sales, services and use tax	3,250,040	3,191,041	-	-	3,250,040	3,191,041	1.85%
Unrestricted state grants	21,609,361	26,526,256	-	-	21,609,361	26,526,256	-18.54%
Unrestricted investment earnings	107,502	361,546	1,898	3,263	109,400	364,809	-70.01%
Other	174,981	234,827	-	-	174,981	234,827	-25.49%
Transfers	(150,319)	-	150,319	-	-	-	100.00%
Total revenues and transfers	53,880,071	55,837,031	2,696,225	2,380,013	56,576,296	58,217,044	-2.82%
Program expenses:							
Governmental activities:							
Instruction	35,854,360	33,220,566	-	207	35,854,360	33,220,773	7.93%
Support services	13,953,688	12,916,707	-	-	13,953,688	12,916,707	8.03%
Non-instructional programs	56,138	165,550	2,479,264	2,346,425	2,535,402	2,511,975	0.93%
Other expenses	4,369,599	3,862,058	-	-	4,369,599	3,862,058	13.14%
Total expenses	54,233,785	50,164,881	2,479,264	2,346,632	56,713,049	52,511,513	8.00%
Changes in net assets	(353,714)	5,672,150	216,961	33,381	(136,753)	5,705,531	-102.40%
Net assets beginning of year	27,699,003	22,026,853	582,506	549,125	28,281,509	22,575,978	25.27%
Net assets end of year	\$ 27,345,289	27,699,003	799,467	582,506	28,144,756	28,281,509	-0.48%

In fiscal 2010, property tax, statewide sales and services tax, and unrestricted state grants account for 75.35% of the revenue from governmental activities while charges for services and operating grants account for 94.35% of the revenue from business type activities.

The District's total revenues were approximately \$56.58 million of which \$53.88 million was for governmental activities and \$2.70 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 2.82% decrease in revenues and an 8.00% increase in expenses. Property tax revenues increased \$452,158 to fund increases in expenses. The increase in expenses was related to increases in the instructional functional area.

### Governmental Activities

Revenues for governmental activities were \$53,880,071 and expenses were \$54,233,785 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 35,854,360	33,220,566	7.93%	25,105,626	25,132,652	-0.11%
Support services	13,953,688	12,916,707	8.03%	13,748,385	12,692,411	8.32%
Non-instructional programs	56,138	165,550	-66.09%	56,138	165,550	-66.09%
Other expenses	4,369,599	3,862,058	13.14%	2,176,724	1,940,343	12.18%
Totals	<u>\$ 54,233,785</u>	<u>50,164,881</u>	<u>8.11%</u>	<u>41,086,873</u>	<u>39,930,956</u>	<u>2.89%</u>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$1,859,451.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$11,287,461.
- The net cost of governmental activities was financed with \$15,741,594 in property tax, \$3,250,040 in statewide sales services and use tax, \$21,609,361 in unrestricted state grants, \$107,502 in interest income, and \$174,981 in other income.

### Business Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$2,696,225 and expenses were \$2,479,264. The District's business type activities include the School Nutrition and the Caring Resale Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$10,684,749, compared to last year's ending fund balances of \$11,154,254. However, the primary reason for the decrease was from the decrease in the General Fund balance.

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## **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the product of many factors. A decrease in state aid resulted in a decrease in revenues. The decrease in revenues along with the increase in General Fund expenditures ensuring the financial position of the District to decrease.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from a deficit \$473,224 to a balance \$329,757, due to an increase in revenues during the year.
- The Capital Projects fund balance decreased during the current year, from \$5,319,755 to \$4,868,596. This was due to an increase in expenditures during the year.
- The Management Levy fund balance increased from \$265,923 to \$697,222. This was due to an increase in revenues during the year.

## **Proprietary Fund Highlights**

The Enterprise Funds net assets increased from \$582,506 at June 30, 2009 to \$799,467 at June 30, 2010, representing an increase of 37.25%.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$2,733,770 less than budgeted revenues, a variance of 4.61%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2010, the District had invested \$41.83 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.21% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$1,471,008.

The original cost of the District's capital assets was \$61,229,080. Governmental funds account for \$60,391,117 with the remainder of \$837,963 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$39,484,265 at June 30, 2010, compared to \$26,414,632 reported at June 30, 2009. This increase resulted from elementary projects being finished during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 637,187	637,187	-	-	637,187	637,187	0.00%
Construction in progress	131,443	13,824,259	-	-	131,443	13,824,259	-99.05%
Buildings	39,484,265	26,414,632	-	-	39,484,265	26,414,632	49.48%
Land improvements	238,787	253,936	-	-	238,787	253,936	-5.97%
Machinery and equipment	997,201	979,505	342,741	234,751	1,339,942	1,214,256	10.35%
Total	\$ 41,488,883	42,109,519	342,741	234,751	41,831,624	42,344,270	-1.21%

### Long-Term Debt

At June 30, 2010, the District had \$27,684,241 in total long-term debt outstanding. This represents a decrease of 2.62% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$21,770,000 at June 30, 2010.

The District had total outstanding capital loan notes payable and qualified zone academy bonds payable of \$600,000 and \$1,700,000 respectively at June 30, 2010. Both of these debt issuances are payable from the Special Revenue, Physical Plant and Equipment Levy.

The District also had total outstanding early retirement payable of \$3,302,380 from the Special Revenue, Management Fund at June 30, 2010.

The District had compensated absences payable of \$167,062 from the General Fund at June 30, 2010.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
General obligation bonds	\$ 21,770,000	22,785,000	-	-	21,770,000	22,785,000	-4.45%
Capital loan notes	600,000	700,000	-	-	600,000	700,000	-14.29%
Qualified zone academy bonds	1,700,000	1,700,000	-	-	1,700,000	1,700,000	0.00%
Early retirement	3,302,380	3,022,850	-	-	3,302,380	3,022,850	9.25%
Compensated absences	167,062	147,070	-	-	167,062	147,070	13.59%
Net OPEB liability	137,342	71,138	7,457	3,862	144,799	75,000	93.07%
Total	\$ 27,676,784	28,426,058	7,457	3,862	27,684,241	28,429,920	-2.62%

### ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced stable enrollment for a few years, the District expects enrollment to remain the same.

- 
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2004.
  - With the District's current financial challenges, the FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin Posekany, District Board Secretary/Director of Finance, Marshalltown Community School District, 317 Columbus Dr., Marshalltown, Iowa, 50158.

## **Basic Financial Statements**

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:	\$ 18,112,857	573,280	18,686,137
Receivables:			
Property tax:			
Delinquent	260,736	-	260,736
Succeeding year	15,753,947	-	15,753,947
Interfund	156,991	(156,991.00)	-
Accounts	42,662	18,267	60,929
Due from other governments	1,849,193	-	1,849,193
Inventories	42,255	67,627	109,882
Capital assets, net of accumulated depreciation	41,488,883	342,741	41,831,624
<b>Total Assets</b>	<b>77,707,524</b>	<b>844,924</b>	<b>78,552,448</b>
<b>Liabilities</b>			
Accounts payable	660,152	17,169	677,321
Interest payable	184,810	-	184,810
Salaries and benefits payable	4,700,171	-	4,700,171
Unearned revenue	-	20,831	20,831
Deferred revenue:			
Succeeding year property tax	15,753,947	-	15,753,947
Other	661,558	-	661,558
Incurred but not reported claims	724,813	-	724,813
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	1,065,000	-	1,065,000
Capital loan notes	100,000	-	100,000
Early retirement	879,687	-	879,687
Compensated absences	167,062	-	167,062
Portion due after one year:			
General obligation bonds	20,705,000	-	20,705,000
Capital loan notes	500,000	-	500,000
Qualified zone academy bonds	1,700,000	-	1,700,000
Early retirement	2,422,693	-	2,422,693
Net OPEB liability	137,342	7,457	144,799
<b>Total Liabilities</b>	<b>50,362,235</b>	<b>45,457</b>	<b>50,407,692</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	17,418,883	342,741	17,761,624
Restricted for:			
Categorical funding	556,602	-	556,602
Capital projects	4,868,596	-	4,868,596
Debt service	373,720	-	373,720
Physical plant and equipment levy	329,757	-	329,757
Public education and recreation levy	281,370	-	281,370
Other special revenue purposes	288,464	-	288,464
Unrestricted	3,227,897	456,726	3,684,623
<b>Total Net Assets</b>	<b>\$ 27,345,289</b>	<b>799,467</b>	<b>28,144,756</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

**Exhibit B**

**MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs</b>						
<b>Governmental activities:</b>						
<b>Instruction:</b>						
Regular	\$ 23,888,367	575,426	8,304,516	(15,008,425)	-	(15,008,425)
Special	44,262	242,111	745,902	943,751	-	943,751
Other	11,921,731	880,779	-	(11,040,952)	-	(11,040,952)
	<u>35,854,360</u>	<u>1,698,316</u>	<u>9,050,418</u>	<u>(25,105,626)</u>	<u>-</u>	<u>(25,105,626)</u>
<b>Support services:</b>						
Student	2,120,546	-	-	(2,120,546)	-	(2,120,546)
Instructional staff	2,354,380	-	-	(2,354,380)	-	(2,354,380)
Administration	3,649,834	-	-	(3,649,834)	-	(3,649,834)
Operation and maintenance of plant	4,219,105	-	-	(4,219,105)	-	(4,219,105)
Transportation	1,609,823	161,135	44,168	(1,404,520)	-	(1,404,520)
	<u>13,953,688</u>	<u>161,135</u>	<u>44,168</u>	<u>(13,748,385)</u>	<u>-</u>	<u>(13,748,385)</u>
<b>Non-instruction:</b>						
Community service operations	56,138	-	-	(56,138)	-	(56,138)
<b>Other expenditures:</b>						
Long-term debt interest	1,154,739	-	-	(1,154,739)	-	(1,154,739)
AEA flowthrough	2,192,875	-	2,192,875	-	-	-
Depreciation(unallocated)*	1,021,985	-	-	(1,021,985)	-	(1,021,985)
	<u>4,369,599</u>	<u>-</u>	<u>2,192,875</u>	<u>(2,176,724)</u>	<u>-</u>	<u>(2,176,724)</u>
<b>Total governmental activities</b>	<u>54,233,785</u>	<u>1,859,451</u>	<u>11,287,461</u>	<u>(41,086,873)</u>	<u>-</u>	<u>(41,086,873)</u>
<b>Business Type activities:</b>						
<b>Instructional programs:</b>						
Caring resale	-	175	-	-	175	175
<b>Non-instructional programs:</b>						
Nutrition services	2,479,264	728,658	1,815,175	-	64,569	64,569
<b>Total business type activities</b>	<u>2,479,264</u>	<u>728,833</u>	<u>1,815,175</u>	<u>-</u>	<u>64,744</u>	<u>64,744</u>
<b>Total</b>	<u>\$ 56,713,049</u>	<u>2,588,284</u>	<u>13,102,636</u>	<u>(41,086,873)</u>	<u>64,744</u>	<u>(41,022,129)</u>
<b>General Revenues and Transfers:</b>						
<b>Property tax levied for:</b>						
General purposes				\$ 14,714,398	-	14,714,398
Capital outlay				1,027,196	-	1,027,196
Statewide sales, services and use tax				3,250,040	-	3,250,040
Unrestricted state grants				21,609,361	-	21,609,361
Unrestricted investment earnings				107,502	1,898	109,400
Other				174,981	-	174,981
Transfers				(150,319)	150,319	-
<b>Total general revenues</b>				<u>40,733,159</u>	<u>152,217</u>	<u>40,885,376</u>
<b>Changes in net assets</b>				<u>(353,714)</u>	<u>216,961</u>	<u>(136,753)</u>
<b>Net assets beginning of year</b>				<u>27,699,003</u>	<u>582,506</u>	<u>28,281,509</u>
<b>Net assets end of year</b>				<u>\$ 27,345,289</u>	<u>799,467</u>	<u>28,144,756</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.  
SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	<u>Special Revenue</u>				Total
	General	Capital Projects	Management Levy	Other Nonmajor Governmental Funds	
<b>Assets</b>					
Cash and pooled investments:	\$ 7,420,275	4,177,576	1,429,491	1,299,712	14,327,054
Receivables:					
Property tax					
Delinquent	218,011	-	25,614	17,111	260,736
Succeeding year	13,163,690	-	1,550,000	1,040,257	15,753,947
Interfund	914,874	-	-	-	914,874
Accounts	42,662	-	-	-	42,662
Due from other governments	1,048,315	800,878	-	-	1,849,193
Inventories	42,255	-	-	-	42,255
<b>Total Assets</b>	<b>\$ 22,850,082</b>	<b>4,978,454</b>	<b>3,005,105</b>	<b>2,357,080</b>	<b>33,190,721</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Interfund payable	\$ -	-	757,883	-	757,883
Accounts payable	514,630	109,858	-	7,925	632,413
Salaries and benefits payable	4,700,171	-	-	-	4,700,171
Deferred revenue:					
Succeeding year property tax	13,163,690	-	1,550,000	1,040,257	15,753,947
Other	661,558	-	-	-	661,558
Total liabilities	19,040,049	109,858	2,307,883	1,048,182	22,505,972
Fund balances:					
Reserved for:					
Debt service	-	-	-	373,720	373,720
Categorical funding	556,602	-	-	-	556,602
Unreserved	3,253,431	4,868,596	697,222	935,178	9,754,427
Total fund balances	3,810,033	4,868,596	697,222	1,308,898	10,684,749
<b>Total Liabilities and Fund Balances</b>	<b>\$ 22,850,082</b>	<b>4,978,454</b>	<b>3,005,105</b>	<b>2,357,080</b>	<b>33,190,721</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2010

<b>Total fund balances of governmental funds(page 20)</b>	\$	10,684,749
 <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 in the governmental funds.		41,488,883
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		3,033,251
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.		(184,810)
Long-term liabilities, including bonds payable, capital loan notes payable, compensated absences, and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(27,676,784)</u>
<b>Net assets of governmental activities(page 18)</b>	<b>\$</b>	<b><u>27,345,289</u></b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2010

	Special Revenue				Total
	General	Capital Projects	Management Levy	Other Nonmajor Governmental Funds	
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 13,167,362	3,250,040	1,547,036	1,027,196	18,991,634
Tuition	620,278	-	-	-	620,278
Other	638,812	21,512	73,636	881,726	1,615,686
Intermediate sources	12,677	-	-	-	12,677
State sources	27,133,385	-	1,077	689	27,135,151
Federal sources	5,654,814	-	-	-	5,654,814
Total revenues	47,227,328	3,271,552	1,621,749	1,909,611	54,030,240
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	22,671,514	-	757,883	2,500	23,431,897
Special	44,262	-	-	-	44,262
Other	11,209,838	-	-	766,240	11,976,078
	33,925,614	-	757,883	768,740	35,452,237
Support services:					
Student	2,103,723	-	-	-	2,103,723
Instructional staff	1,847,048	313,262	-	109,775	2,270,085
Administration	3,384,580	-	343,902	-	3,728,482
Operation and maintenance of plant	4,115,072	-	88,665	-	4,203,737
Transportation	1,387,608	295,652	-	-	1,683,260
	12,838,031	608,914	432,567	109,775	13,989,287
Non-instructional programs:					
Community service operations	277	-	-	55,861	56,138
Other expenditures:					
Facilities acquisitions	-	461,322	-	69,281	530,603
Long-term debt:					
Principal	-	-	-	1,115,000	1,115,000
Interest	-	-	-	1,163,755	1,163,755
AEA flowthrough	2,192,875	-	-	-	2,192,875
	2,192,875	461,322	-	2,348,036	5,002,233
Total expenditures	48,956,797	1,070,236	1,190,450	3,282,412	54,499,895
Excess(deficiency)of revenues over(under)expenditures	(1,729,469)	2,201,316	431,299	(1,372,801)	(469,655)
Other financing sources(uses):					
Transfers in	-	96,985	-	2,652,475	2,749,460
Transfers out	-	(2,749,460)	-	-	(2,749,460)
Proceeds from disposal of equipment	150	-	-	-	150
Total other financing sources(uses)	150	(2,652,475)	-	2,652,475	150
Net change in fund balances	(1,729,319)	(451,159)	431,299	1,279,674	(469,505)
Fund balance beginning of year	5,539,352	5,319,755	265,923	29,224	11,154,254
Fund balance end of year	\$ 3,810,033	4,868,596	697,222	1,308,898	10,684,749

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN 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, 2010

Net change in fund balances - total governmental funds(page 22) \$ (469,505)

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

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

Capital expenditures	\$ 794,032	
Depreciation expense	(1,414,668)	(620,636)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (21,863)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issuances, are as follows: 1,115,000

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. 9,016

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 fund, as follows:

Early retirement	\$ (279,530)	
Compensated absences	(19,992)	
Other postemployment benefits payable	(66,204)	(365,726)

**Changes in net assets of governmental activities(page 19) \$ (353,714)**

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2010

	Business Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 530,251	43,029	573,280	3,785,803
Accounts receivable	18,267	-	18,267	-
Inventories	67,627	-	67,627	-
Capital assets, net of accumulated depreciation	342,741	-	342,741	-
<b>Total Assets</b>	<b>958,886</b>	<b>43,029</b>	<b>1,001,915</b>	<b>3,785,803</b>
<b>Liabilities</b>				
Interfund payable	156,991	-	156,991	-
Accounts payable	17,169	-	17,169	27,739
Net OPEB liability	7,457	-	7,457	-
Incurred but not reported claims	-	-	-	724,813
Unearned revenues	20,831	-	20,831	-
<b>Total Liabilities</b>	<b>202,448</b>	<b>-</b>	<b>202,448</b>	<b>752,552</b>
<b>Net Assets</b>				
Invested in capital assets	342,741	-	342,741	-
Unrestricted	413,697	43,029	456,726	3,033,251
<b>Total Net Assets</b>	<b>\$ 756,438</b>	<b>43,029</b>	<b>799,467</b>	<b>3,033,251</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2010

	Business Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
<b>OPERATING REVENUE:</b>				
Local sources:				
Charges for services	\$ 728,658	175	728,833	3,750,250
<b>OPERATING EXPENSES:</b>				
Support services:				
Administration:				
Benefits	-	-	-	3,772,113
Non-instructional:				
Food service operations:				
Salaries	973,467	-	973,467	-
Benefits	186,711	-	186,711	-
Services	99,114	-	99,114	-
Supplies	1,159,927	-	1,159,927	-
Depreciation	56,340	-	56,340	-
Other	3,705	-	3,705	-
	2,479,264	-	2,479,264	-
<b>TOTAL OPERATING EXPENSES</b>	<b>2,479,264</b>	<b>-</b>	<b>2,479,264</b>	<b>3,772,113</b>
<b>OPERATING INCOME(LOSS)</b>	<b>(1,750,606.00)</b>	<b>175</b>	<b>(1,750,431.00)</b>	<b>(21,863.00)</b>
<b>NON-OPERATING REVENUES:</b>				
Interest income	1,430	468	1,898	-
State sources	23,478	-	23,478	-
Federal sources	1,791,697	-	1,791,697	-
<b>TOTAL NON-OPERATING REVENUES</b>	<b>1,816,605</b>	<b>468</b>	<b>1,817,073</b>	<b>-</b>
Changes in net assets before other financing sources	65,999	643	66,642	(21,863.00)
<b>OTHER FINANCING SOURCES:</b>				
Capital contributions	150,319	-	150,319	-
Changes in net assets	216,318	643	216,961	(21,863.00)
Net assets at beginning of year	540,120	42,386	582,506	3,055,114
<b>Net assets end of year</b>	<b>\$ 756,438</b>	<b>43,029</b>	<b>799,467</b>	<b>3,033,251</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2010

	Business Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Caring Resale	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 742,103	-	742,103	-
Cash received from miscellaneous operating activities	-	175	175	3,750,250
Cash payments to employees for services	(1,156,583)	-	(1,156,583)	(3,710,802)
Cash payments to suppliers for goods or services	(1,123,615)	-	(1,123,615)	-
Net cash provided by(used in) operating activities	(1,538,095)	175	(1,537,920)	39,448
Cash flows from non-capital financing activities:				
State grants received	23,478	-	23,478	-
Federal grants received	1,654,419	-	1,654,419	-
Net cash provided by non-capital financing activities	1,677,897	-	1,677,897	-
Cash flows from investing activities:				
Interest on investments	1,430	468	1,898	-
Cash flows from capital financing activities:				
Purchase of assets	(14,011)	-	(14,011)	-
Net increase in cash and cash equivalents	127,221	643	127,864	39,448
Cash and cash equivalents at beginning of year	403,030	42,386	445,416	3,746,355
Cash and cash equivalents at end of year	\$ 530,251	43,029	573,280	3,785,803
Reconciliation of operating income(loss)to net cash provided by(used in)operating activities:				
Operating income(loss)	\$ (1,750,606)	175	(1,750,431)	(21,863)
Adjustments to reconcile operating income(loss)to net cash provided by(used in)operating activities:				
Commodities consumed	137,278	-	137,278	-
Depreciation	56,340	-	56,340	-
Increase in inventories	(7,207)	-	(7,207)	-
Decrease in accounts receivable	10,115	-	10,115	-
Increase(Decrease)in accounts payable	9,060	-	9,060	(7,376)
Increase in other postemployment benefits	3,595	-	3,595	-
Increase in incurred but not reported	-	-	-	68,687
Increase in unearned revenue	3,330	-	3,330	-
Net cash provided by(used in) operating activities	\$ (1,538,095)	175	(1,537,920)	39,448

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$137,278.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2010

	<u>Private Purpose Trust Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	<u>\$ 52,008</u>
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u>\$ 52,008</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 2,000
Interest income	518
Total additions	<u>2,518</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>1,500</u>
Change in net assets	1,018
Net assets beginning of year	<u>50,990</u>
Net assets end of year	<u>\$ 52,008</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010

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

The Marshalltown Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Marshalltown, Iowa, and the predominate agricultural territory in Marshall County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

For financial reporting purposes, Marshalltown 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 Marshalltown Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall County Assessors' 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

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 Special Revenue, Management Levy Fund is used to account for property taxes collected to pay property insurance, fidelity bonds, workers' compensation, liability insurance premiums, unemployment insurance claims, and early retirement incentives.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Caring Resale Fund. The School Nutrition Fund is used to account for the food service operations of the District.

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

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

### C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible

to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

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

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

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009

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

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

Capital Assets – Capital assets, which include property, machinery and equipment, 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 repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	5-12 years
Machinery and equipment	5-12 years

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 represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Unearned Revenue – Unearned revenues are monies collected for student fees and lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the balance sheet in the Enterprise, School Nutrition Fund.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

Restricted 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 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.

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

The District's deposits at June 30, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$419,166 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 2,652,475
Capital Projects: Statewide Sales, Services, and Use Tax	Capital Projects: Capital Facility Construction	30,593
Capital Projects: \$25 Million Bond	Capital Projects: Statewide Sales, Services and Use Tax	<u>66,392</u>
Total		<u>\$ 2,749,460</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The transfer of \$2,652,475 from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for debt relief.

The transfer of \$30,593 from the Capital Projects: Capital Facility Construction Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund was to close the Capital Projects: Capital Facility Construction Fund.

The transfer of \$66,392 from the Capital Projects: Statewide Sales, Services, and Use Tax Fund to the Capital Projects: \$25 Million Bond Fund was to close the Capital Projects: \$25 Million Bond Fund.

**(4) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	School Nutrition	\$ 156,991
General	Special Revenue: Management Levy	<u>757,883</u>
Total		<u>\$ 914,874</u>

**(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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. is the trustee for the program.

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. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.5%. The District did not have any borrowings or repayments during the year ended June 30, 2010.

During the year ended June 30, 2010, the District paid \$25,803 of interest on the ISCAP warrants.

**(6) Capital Assets**

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 637,187	-	-	637,187
Construction in progress	13,824,259	131,443	13,824,259	131,443
Total capital assets not being depreciated	<u>14,461,446</u>	<u>131,443</u>	<u>13,824,259</u>	<u>768,630</u>
Capital assets being depreciated:				
Buildings	39,063,539	14,076,469	-	53,140,008
Land improvements	441,415	-	-	441,415
Machinery and equipment	5,890,469	410,379	259,784	6,041,064
Total capital assets being depreciated	<u>45,395,423</u>	<u>14,486,848</u>	<u>259,784</u>	<u>59,622,487</u>
Less accumulated depreciation for:				
Buildings	12,648,907	1,006,836	-	13,655,743
Land improvements	187,479	15,149	-	202,628
Machinery and equipment	4,910,964	392,683	259,784	5,043,863
Total accumulated depreciation	<u>17,747,350</u>	<u>1,414,668</u>	<u>259,784</u>	<u>18,902,234</u>
Total capital assets being depreciated, net	<u>27,648,073</u>	<u>13,072,180</u>	<u>-</u>	<u>40,720,253</u>
Governmental activities capital assets, net	<u>\$ 42,109,519</u>	<u>13,203,623</u>	<u>13,824,259</u>	<u>41,488,883</u>
Business type activities:				
Machinery and equipment	\$ 726,122	166,080	54,239	837,963
Less accumulated depreciation	491,371	56,340	52,489	495,222
Business-type activities capital assets, net	<u>\$ 234,751</u>	<u>109,740</u>	<u>1,750</u>	<u>342,741</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 71,979
Support services:		
Instructional staff services		36,088
Administration services		550
Operation and maintenance of plant services		34,360
Transportation		249,706
		<u>392,683</u>
Unallocated depreciation		<u>1,021,985</u>
		<u>\$ 1,414,668</u>
Business type activities:		
Food services		<u>\$ 56,340</u>

**(7) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation	\$ 22,785,000	-	1,015,000	21,770,000	1,065,000
Qualified zone academy bonds	1,700,000	-	-	1,700,000	-
Capital loan notes	700,000	-	100,000	600,000	100,000
Early retirement	3,022,850	1,108,087	828,557	3,302,380	879,687
Compensated absences	147,070	167,062	147,070	167,062	167,062
Net OPEB liability	71,138	66,204	-	137,342	-
Total	<u>\$ 28,426,058</u>	<u>1,341,353</u>	<u>2,090,627</u>	<u>27,676,784</u>	<u>2,211,749</u>
Business type activities:					
Net OPEB liability	<u>\$ 3,862</u>	<u>3,595</u>	<u>-</u>	<u>7,457</u>	<u>-</u>

General Obligation

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2004			Bond Issue of June 1, 2006			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2011	5.00 % \$	1,065,000	1,045,000	4.65 % \$	-	40,455	1,065,000	1,085,455	2,150,455
2012	5.00	1,120,000	991,750	4.65	-	40,455	1,120,000	1,032,205	2,152,205
2013	5.00	1,175,000	935,750	4.65	-	40,455	1,175,000	976,205	2,151,205
2014-2018	5.00	6,825,000	3,735,750	4.65	250,000	196,462	7,075,000	3,932,212	11,007,212
2019-2023	5.00	8,700,000	1,852,000	4.65	520,000	93,930	9,220,000	1,945,930	11,165,930
2024	5.00	2,015,000	100,750	4.65	100,000	4,650	2,115,000	105,400	2,220,400
Total		\$ 20,900,000	8,661,000		\$ 870,000	416,407	\$ 21,770,000	9,077,407	30,847,407

Qualified Zone Academy Bonds

During the year ended June 30, 2008, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers from the Physical Plant and Equipment Levy (PPEL) fund to a debt sinking fund will be made to pay the indebtedness due December 2015, of \$1,700,000.

Capital Loan Note Payable

Details of the District's June 30, 2010 capital loan note indebtedness paid from the Special Revenue, Physical Plant and Equipment Levy Fund is as follows:

Year Ending June 30,	Note Issue of May 30, 2008			
	Interest Rates	Principal	Interest	
2011	3.50 % \$	100,000	23,400	
2012	3.70	100,000	19,900	
2013	3.90	100,000	16,200	
2014-2016	4.00-4.20	300,000	24,800	
Total		\$ 600,000	84,300	

Early Retirement

The District has in place a retirement incentive plan, that provides a monthly stipend based in a percentage of the employee's last full time contract. This stipend continues until the retiree reaches the age of 65. Early retirement benefits paid during the year ended June 30, 2010, totaled \$828,557. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

**(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 4.30% of their annual salary and the District is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$2,030,362, \$1,884,835 and \$1,647,289 respectively, equal to the required contributions for each year.

**(9) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription, dental, vision, and life benefits for retirees and their spouses. There are 672 active and 103 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription and dental coverage is provided through a fully-insured plan with Wellmark. The vision coverage is provided through a fully-insured plan with Avisis. The life coverage is provided through a fully-insured plan with Madison National Life. Retirees under age 65 pay the same premium for the medical/prescription, dental, vision, and life benefits as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation.

Annual required contribution	\$ 1,126,000
Interest on net OPEB obligation	3,375
Adjustment to annual required contribution	<u>(5,576)</u>
Annual OPEB cost	1,123,799
Contributions made	<u>(1,054,000)</u>
Increase in net OPEB obligation	69,799
Net OPEB obligation beginning of year	75,000
Net OPEB obligation end of year	<u><u>\$ 144,799</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$1,054,000 to the medical/prescription, dental, vision, and life plans. Plan members eligible for benefits contributed \$947,000, or 76.87% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 1,123,799	84.27%	\$ 144,799

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$7,613,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,613,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$24,526,604 and the ratio of the UAAL to covered payroll was 31.04%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 11% and the projected dental and vision trend rate is 5%. The medical, dental, and vision trend rates are reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2008 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$639.17 per month for retirees less than age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 15 years.

#### **(10) Risk Management**

The District has a self-funded health insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$50,000 in insured claims for any one covered individual. Settle claims have not exceeded the commercial coverage in any of the past three years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$3,033,251 at June 30, 2010. The incurred but not recorded and unpaid claims liability of \$724,813 reported in the plan at June 30, 2010 based on the requirements of GASB Statement Number 10 is set up as a liability on the statement of net assets.

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

**(11) 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 \$2,192,875 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(12) Construction Commitment**

The District has entered into various contracts totaling \$387,600 for the Alternative High School, Fisher and Miller Middle School Projects. As of June 30, 2010, costs of \$131,443 had been incurred against the contracts. The balance of \$256,157 remaining at June 30, 2010 will be paid as work on the projects progresses.

**(13) Categorical Funding**

The District's categorical funding balances for the year ended June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Four Year Old Preschool State Aid	\$ 101,986
Textbook Aid for Nonpublic Students	336
Market Factor Incentives	13,170
Professional Development	277,196
Model Core Curriculum	<u>163,914</u>
 Total	 <u>\$ 556,602</u>

## **Required Supplementary Information**

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
<b>Revenues:</b>						
Local sources	\$ 21,227,598	730,731	21,958,329	21,454,165	21,454,165	504,164
Intermediate sources	12,677	-	12,677	-	-	12,677
State sources	27,135,151	23,478	27,158,629	34,799,868	34,799,868	(7,641,239)
Federal sources	5,654,814	1,791,697	7,446,511	3,055,883	3,055,883	4,390,628
Total revenues	<u>54,030,240</u>	<u>2,545,906</u>	<u>56,576,146</u>	<u>59,309,916</u>	<u>59,309,916</u>	<u>(2,733,770)</u>
<b>Expenditures/Expenses:</b>						
Instruction	35,452,237	-	35,452,237	37,068,119	37,068,119	1,615,882
Support services	13,989,287	-	13,989,287	14,031,393	15,031,393	1,042,106
Non-instructional programs	56,138	2,479,264	2,535,402	2,249,876	2,849,876	314,474
Other expenditures	5,002,233	-	5,002,233	6,511,718	5,511,718	509,485
Total expenditures/expenses	<u>54,499,895</u>	<u>2,479,264</u>	<u>56,979,159</u>	<u>59,861,106</u>	<u>60,461,106</u>	<u>3,481,947</u>
Excess(deficiency)of revenues over(under)expenditures/expenses	(469,655)	66,642	(403,013)	(551,190)	(1,151,190)	748,177
Other financing sources, net	150	150,319	150,469	-	-	184,469
Excess(deficiency)of revenues and other financing sources over(under) expenditures/expenses	(469,505)	216,961	(252,544)	(551,190)	(1,151,190)	932,646
Balance beginning of year	<u>11,154,254</u>	<u>582,506</u>	<u>11,736,760</u>	<u>10,704,708</u>	<u>10,704,708</u>	<u>1,032,052</u>
Balance end of year	<u>\$ 10,684,749</u>	<u>799,467</u>	<u>11,484,216</u>	<u>10,153,518</u>	<u>9,553,518</u>	<u>1,964,698</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2010

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated 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. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$600,000.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 7,613,000	\$ 7,613,000	0.00%	\$ 26,552,674	28.67%
2010	July 1, 2008	-	7,613,000	7,613,000	0.00%	24,526,604	31.04%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

## **Other Supplementary Information**

**MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Student Activity	Physical Plant and Equipment Levy	Public Education and Recreation Levy	Expendable Trust	Total Special Revenue	Debt Service	
<b>Assets</b>							
Cash and pooled investments	\$ 295,609	315,375	279,421	35,587	925,992	373,720	1,299,712
Receivables:							-
Property tax:							-
Delinquent	-	15,162	1,949	-	17,111	-	17,111
Succeeding year	-	921,372	118,885	-	1,040,257	-	1,040,257
<b>Total Assets</b>	<b>\$ 295,609</b>	<b>1,251,909</b>	<b>400,255</b>	<b>35,587</b>	<b>1,983,360</b>	<b>373,720</b>	<b>2,357,080</b>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	\$ 7,145	780	-	-	7,925	-	7,925
Deferred revenue:							
Succeeding year property tax	-	921,372	118,885	-	1,040,257	-	1,040,257
	7,145	922,152	118,885	-	1,048,182	-	1,048,182
Fund balances:							
Reserved for debt service	-	-	-	-	-	373,720	373,720
Unreserved	288,464	329,757	281,370	35,587	935,178	-	935,178
Total fund balances	288,464	329,757	281,370	35,587	935,178	373,720	1,308,898
<b>Total Liabilities and Fund Balances</b>	<b>\$ 295,609</b>	<b>1,251,909</b>	<b>400,255</b>	<b>35,587</b>	<b>1,983,360</b>	<b>373,720</b>	<b>2,357,080</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Student Activity	Physical Plant and Equipment Levy	Public Education and Recreation Levy	Expendable Trust	Total Special Revenue		
REVENUES:							
Local sources:							
Local tax	\$ -	909,480	117,716	-	1,027,196	-	1,027,196
Other	839,969	15,114	26,073	570	881,726	-	881,726
State sources	-	607	82	-	689	-	689
TOTAL REVENUES	839,969	925,201	143,871	570	1,909,611	-	1,909,611
EXPENDITURES:							
Current:							
Instruction:							
Regular	-	-	-	2,500	2,500	-	2,500
Other	766,240	-	-	-	766,240	-	766,240
Support services:							
Instructional staff	-	109,775	-	-	109,775	-	109,775
Non-instructional:							
Community service operations	-	-	55,861	-	55,861	-	55,861
Other expenditures:							
Facilities acquisition	-	12,445	56,836	-	69,281	-	69,281
Long-term debt:							
Principal	-	-	-	-	-	1,115,000	1,115,000
Interest and other fiscal charges	-	-	-	-	-	1,163,755	1,163,755
TOTAL EXPENDITURES	766,240	122,220	112,697	2,500	1,003,657	2,278,755	3,282,412
Excess(deficiency)of revenue over (under)expenditures	73,729	802,981	31,174	(1,930)	905,954	(2,278,755)	(1,372,801)
Other financing sources:							
Transfers in	-	-	-	-	-	2,652,475	2,652,475
Excess(deficiency)of revenue and other financing sources over (under)expenditures	73,729	802,981	31,174	(1,930)	905,954	373,720	1,279,674
Fund balance beginning of year	214,735	(473,224)	250,196	37,517	29,224	-	29,224
Fund balance end of year	\$ 288,464	329,757	281,370	35,587	935,178	373,720	1,308,898

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Senior High School	\$ 133,886	689,840	616,790	206,936
Miller Middle School	(174.00)	85,121	72,382	12,565
Anson Elementary School	3,313	10	-	3,323
Fisher Elementary School	7,424	5,265	3,142	9,547
Franklin Elementary School	3,556	811	2,597	1,770
Hoglan Elementary School	20,732	7,370	11,938	16,164
Rogers Elementary School	232	567	711	88
Woodbury Elementary School	34,718	787	2,186	33,319
Lenihan School	11,048	50,198	56,494	4,752
Total	\$ 214,735	839,969	766,240	288,464

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, SUPPORT TRUST ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Claude Wilkins Memorial	\$ 2,379	2	-	2,381
Warrington Memorial	3,284	3	500	2,787
Flora Davis Forman Scholarship	23,727	22	2,000	21,749
Mark Mann Scholarship	8,127	543	-	8,670
Total	<u>\$ 37,517</u>	<u>570</u>	<u>2,500</u>	<u>35,587</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2010

	\$25 Million Bond	Statewide Sales, Services and Use Tax	Capital Facility Construction	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ -	3,250,040	-	3,250,040
Other	193	20,963	356	21,512
Total revenues	193	3,271,003	356	3,271,552
<b>EXPENDITURES:</b>				
Current:				
Support services:				
Instructional staff	-	313,262	-	313,262
Transportation	-	295,652	-	295,652
	-	608,914	-	608,914
Other expenditures:				
Facilities acquisitions	32,221	429,101	-	461,322
Total expenditures	32,221	1,038,015	-	1,070,236
Excess (deficiency) of revenues over (under) expenditures	(32,028)	2,232,988	356	2,201,316
<b>OTHER FINANCING USES:</b>				
Transfer in	66,392	30,593		96,985
Transfer out	-	(2,718,867)	(30,593)	(2,749,460)
TOTAL OTHER FINANCING SOURCES (USES)	66,392	(2,688,274)	(30,593)	(2,652,475)
Net change in fund balances	34,364	(455,286)	(30,237)	(451,159)
Fund balance beginning of year	(34,364)	5,323,882	30,237	5,319,755
Fund balance end of year	\$ -	4,868,596	-	4,868,596

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS  
 JUNE 30, 2010

	Kiser Memorial	Supinger Memorial	White Memorial	Total
<b>Assets</b>				
Cash and pooled investments	\$ 6,220	33,315	12,473	52,008
<b>Liabilities</b>				
Liabilities:	-	-	-	-
<b>Net Assets</b>				
Reserved for scholarships	\$ 6,220	33,315	12,473	52,008

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND, PRIVATE PURPOSE TRUST ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

	Kiser Memorial	Supinger Memorial	White Memorial	Total
Additions:				
Local sources:				
Interest income	\$ 63	340	115	518
Gifts and contributions	-	-	2,000	2,000
	<u>63</u>	<u>340</u>	<u>2,115</u>	<u>2,518</u>
Deductions:				
Instruction:				
Regular:				
Scholarships awarded	-	500	1,000	1,500
	<u>-</u>	<u>500</u>	<u>1,000</u>	<u>1,500</u>
Changes in net assets	63	(160.00)	1,115	1,018
Net assets beginning of year	<u>6,157</u>	<u>33,475</u>	<u>11,358</u>	<u>50,990</u>
Net assets end of year	<u>\$ 6,220</u>	<u>33,315</u>	<u>12,473</u>	<u>52,008</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 18,991,634	18,480,477	17,944,565	17,338,396	16,221,358	14,959,584	11,593,268
Tuition	620,278	884,833	690,049	786,543	763,379	658,440	610,311
Other	1,615,686	1,856,905	2,000,495	2,105,819	1,982,435	1,956,450	1,529,229
Intermediate sources	12,677	3,000	-	-	-	-	-
State sources	27,135,151	31,849,930	29,525,104	27,891,472	25,374,838	24,175,261	22,767,651
Federal sources	5,654,814	2,794,429	2,687,752	4,082,428	2,530,261	2,986,008	4,026,455
<b>Total</b>	<b>\$ 54,030,240</b>	<b>55,869,574</b>	<b>52,847,965</b>	<b>52,204,658</b>	<b>46,872,271</b>	<b>44,735,743</b>	<b>40,526,914</b>
Expenditures:							
Instruction:							
Regular	\$ 23,431,897	20,060,964	18,726,781	16,356,028	15,410,271	16,448,312	15,701,301
Special	44,262	7,044,662	7,236,665	5,579,883	6,481,420	5,691,633	7,219,374
Other	11,976,078	7,164,887	6,464,219	6,549,435	5,635,206	4,333,260	2,874,639
Support services:							
Student	2,103,723	1,908,107	1,991,004	1,846,262	1,690,065	2,425,533	2,422,512
Instructional staff	2,270,085	2,142,918	1,794,691	2,272,949	2,119,595	1,603,247	1,645,564
Administration	3,728,482	3,834,695	3,900,824	4,611,452	4,555,965	3,533,077	3,911,954
Operation and maintenance of plant	4,203,737	3,956,726	4,043,697	3,750,599	3,352,581	2,837,917	2,934,819
Transportation	1,683,260	1,484,621	1,521,172	1,346,938	1,085,648	1,044,119	1,042,819
Central support	-	-	-	-	-	507,834	507,200
Non-instructional programs:							
Community service operations	56,138	165,550	120,319	95,017	100,334	133,200	87,783
Other expenditures:							
Facilities acquisitions	530,603	2,789,759	3,368,510	7,386,945	14,855,639	5,721,204	2,561,731
Long Term Debt:							
Principal	1,115,000	1,075,000	940,000	900,000	1,557,000	735,000	700,000
Interest and other fiscal charges	1,163,755	1,204,542	1,215,005	1,246,434	1,250,195	1,054,408	102,334
AEA flow-through	2,192,875	1,921,715	1,833,651	1,712,160	1,569,129	1,493,820	1,471,610
<b>Total</b>	<b>\$ 54,499,895</b>	<b>54,754,146</b>	<b>53,156,538</b>	<b>53,654,102</b>	<b>59,663,048</b>	<b>47,562,564</b>	<b>43,183,640</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
GAINING EARLY AWARENESS AND READINESS FOR UNDERGRADUATE PROGRAMS	84.334	FY 10	<u>79,128</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	323,397
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	1,382,171 *
SUMMER FOOD SERVICE PROGRAM	10.559	FY 10	<u>55,866</u>
			<u>1,761,434</u>
TEAM NUTRITION GRANT	10.574	FY 10	<u>28,110</u>
CHILD NUTRITION DISCRETIONARY GRANTS LIMITED AVAILABILITY	10.579	FY 10	<u>123,201</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 10	<u>2,153</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	FY 09	124,279
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	FY 10	866,924
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	<u>101,200</u>
			<u>1,092,403</u>
MIGRANT EDUCATION - BASIC STATE GRANTS PROGRAM	84.011	FY 10	<u>117,760</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - NATIONAL PROGRAMS	84.184	FY 10	<u>122,731</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>20,417</u>
FUND FOR THE IMPROVEMENT OF EDUCATION(BILINGUAL GRANT)	84.215	FY 10	<u>76,014</u>
PARENTAL INFORMATION AND RESOURCES CENTERS	84.310	FY 10	<u>4,099</u>
ADVANCED PLACEMENT PROGRAM	84.330	FY 10	<u>784</u>
READING FIRST STATE GRANTS	84.357	FY 10	<u>4,518</u>
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 09	5,017
TITLE III - ENGLISH LANGUAGE ACQUISITION STATE GRANTS	84.365	FY 10	<u>90,735</u>
			<u>95,752</u>

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT(CONTINUED):			
DEPARTMENT OF EDUCATION(CONTINUED):			
IOWA DEPARTMENT OF EDUCATION(CONTINUED):			
IMPROVING TEACHER QUALITY STATE GRANTS - TITLE IIA (EVERY STUDENT COUNTS)	84.367	FY 10	<u>239,964</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 10	<u>31,077</u>
STATE FISCAL STABILIZATION FUND - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>2,495,505</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 10	<u>58,391</u>
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 10	304,623
SPECIAL EDUCATION GRANTS TO STATES, RECOVERY ACT	84.391	FY 10	<u>441,279</u>
			<u>745,902</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
IOWA DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
COOPERATIVE AGREEMENTS TO SUPPORT COMPREHENSIVE SCHOOL HEALTH PROGRAMS TO PREVENT THE SPREAD OF HIV AND OTHER IMPORTANT HEALTH PROBLEMS			
	93.938	FY 10	<u>650</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION:			
IOWA STATE UNIVERSITY:			
AEROSPACE EDUCATION SERVICES PROGRAM	43.001	FY 10	<u>13,713</u>
TOTAL			<u>\$ 7,113,706</u>

\* Includes \$137,278 of non-cash awards

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marshalltown Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Marshalltown 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 Marshalltown Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 4, 2011. 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 Marshalltown 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 Marshalltown Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marshalltown 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs items II-B-10, II-C-10, II-D-10, and II-E-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marshalltown 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

Marshalltown Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Marshalltown 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 Marshalltown Community School District and other parties to whom Marshalltown Community School District may report, including federal awarding agencies and pass-through entities. 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 Marshalltown Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Nolte, Cornman & Johnson PC  
NOLTE, CORNMAN & JOHNSON, P.C.

January 4, 2011

**NOLTE, CORNMAN & JOHNSON P.C.**

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Marshalltown Community School District

Compliance

We have audited the compliance of Marshalltown Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Marshalltown Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Marshalltown Community School District's management. Our responsibility is to express an opinion on Marshalltown Community School District's compliance based on our audit.

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

In our opinion, Marshalltown Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Marshalltown Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Marshalltown Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Marshalltown Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Marshalltown Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Marshalltown 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 Marshalltown Community School District and other parties to whom Marshalltown Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Nolte, Cornman & Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

January 4, 2011

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Clustered programs:
    - Nutrition Cluster:
      - CFDA Number 10.553 - School Breakfast Program
      - CFDA Number 10.555 - National School Lunch Program
      - CFDA Number 10.559 – Summer Food Service Program
    - Title I Cluster
      - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
      - CFDA Number 84.389 – Title I Grants to Local Educational Agencies, Recovery Act
    - Special Education Cluster
      - CFDA Number 84.027 – Special Education – Grants to States (Part B)
      - CFDA Number 84.391 – Special Education – Grants to States, Recovery Act
  - Individual programs:
    - CFDA Number 84.394 - State Fiscal Stabilization Fund - Education State Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Marshalltown Community School District did not qualify as a low-risk auditee.

MARSHALLTOWN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the Student Activity and the School Nutrition Funds, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate alternatives and implement changes when able and as soon as possible.

Conclusion - Response accepted.

II-B-10 Commodity Pricing - We noted during our audit of the Enterprise, School Nutrition Fund that the District did not price out the commodity inventory using the correct values at the end of the year.

Recommendation - The District should review procedures in place for calculation of commodity inventory prices. The State of Iowa provides a price guide listing of values to be used in the calculation. The District needs to use the correct price values in calculating the inventory value at year end.

Response - We has requested that our Food Service Department use the proper calculations as provided by the State of Iowa.

Conclusion - Response accepted.

II-C-10 Paying from Copies of Invoices - We noted during our audit instances in the School Nutrition Fund where payments to vendors were made from copies of an invoice.

Recommendation - The District should change its control procedures to require the original invoices as source documentation to support payments.

Response - When District offices are combined, all School Nutrition original invoices will be maintained in the business office.

Conclusion - Response accepted.

II-D-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if

they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District has implemented the Greater Iowa Treasure Hint process and has brought the checks up to date.

Conclusion - Response accepted.

II-E-10 Policies - We noted during the audit that the board policies are not being reviewed on a regular basis.

Recommendation - Board policies should be reviewed by the Board at a minimum every five years.

Response - The District is in its final year of policy review and will begin a cycle of 5 year review in fiscal year 2011.

Conclusion - Response accepted.

### Part III: Findings and Questioned Costs For Federal Awards:

#### INSTANCES OF NON-COMPLIANCE:

No matters were reported.

#### INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2010  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted in the School Nutrition Fund, that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

### Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010 did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - We noted during our audit that the District wrote checks to individual students from the Student Activity Fund. These checks were given to students as incentive prizes for a fundraiser. These disbursements do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District has communicated with administrators that this is not an acceptable practice and has since abstained from this practice.

Conclusion - Response accepted.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dean Stuckey, Board Member Owner of Best Vacuum Store & More	Supplies	\$30
Dave Adland, Bus Driver Owner of Adland Engraving Co.	Supplies	\$21,753
Carol Webb, Teacher Owner of Webb Picture Framing	Supplies	\$265
Charles Bogner, Teacher Owner of Opus Music	Supplies	\$1,362

According to Attorney General's Opinion dated July 2, 1990 the above transactions with the bus driver and teachers do not appear to represent a conflict of interest.

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with the Board Member does not appear to represent a conflict of interest because the \$2,500 limit to the Board Members was not exceeded.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-09 Certified Enrollment - We noted that the number of ELL students reported to the Iowa Department of Education on Line 13 of the Certified Enrollment Certification Form for October 2009 was understated by 47.08 students. The District omitted 214 ELL students when they submitted their report.

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

Response - The District has contacted the Department of Education and the Department of Management to correct the October 2009 certified enrollment.

Conclusion - Response accepted.

IV-H-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement funds.

IV-K-10 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.3 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, 2010, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance		\$	170,445
Statewide sales and services tax revenue			3,250,040
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	595,125	
Other improvements		546,605	
Debt service for school infrastructure:			
General obligation debt		2,152,005	
Capital loan note		126,750	
			<u>3,420,485</u>
Ending balance		\$	<u>-</u>

Levies reduced as a result of statewide sales and services tax received:

	Per \$1000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 2.45740	\$ 2,152,005
Physical plant and equipment levy	0.67000	610,623

IV-L-10 Financial Condition - During our audit we noted that the District had several negative accounts within the Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District has requested administrators review and correct negative balances in the Activity Fund.

Conclusion - Response accepted.

IV-M-10 Interfund Loans - We noted during our audit that the District has interfund loans which were on the balance sheets in the prior year and still on the current year balance sheets. As of June 30, 2010, the Special Revenue, Management Fund and the Enterprise, School Nutrition Fund owe the General fund \$757,883 and \$156,991 respectively.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year end financial statements must be repaid to their respective funds on or before October 1<sup>st</sup> of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must issue anticipatory warrants to repay the interfund loans according to Iowa Code Chapter 74.

Recommendation - Although the District has a plan for repayment, it appears that to comply with the declaratory ruling that the District should issue anticipatory warrants to repay the interfund loans.

Response - The District has repaid the interfund loans by October 1, 2010.

Conclusion - Response accepted.

IV-N-10 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. More specific examples are as follows: We noted parking lot fees and fines at the high school. Parking fees are a rent of space. Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund.

There was a student interest account that had a balance remaining at the end of the year. The interest collected during the year should be allocated out to other student activity accounts. The balance remaining at the end of the current year should be allocated out to other activity accounts or an action plan needs to be put in place on how the District plans to spend this balance within the Student Activity Fund.

We noted that the District holds several fundraisers within the Activity Fund, however we noted that the Board has not been approving those fundraisers.

Response - The District will allocate the interest in the Student Activity account to the various student organizations by year end.

Conclusion - Response accepted.