

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

JUNE 30, 2011

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Dave Scott	President	2011
David Stineman	Vice-President	2011
Julie Schossow	Board Member	2013
Deanna Berkey	Board Member	2011
Terry Collins	Board Member	2013
School Officials		
Dr. Alan Meyer	Superintendent	2011
Nancy Burchland	Business Manager	2011
Cartwright, Druker And Ryden	Attorney	2011

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

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

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
East Marshall 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 East Marshall Community School District, Gilman, Iowa as of and for the year ended June 30, 2011, 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 East Marshall Community School District at June 30, 2011, 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 December 19, 2011 on our consideration of East Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 46 through 48 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 East Marshall Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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.

December 19, 2011

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

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East Marshall 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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$8,133,430 in fiscal 2010 to \$8,762,401 in fiscal 2011, while General Fund expenditures increased from \$8,028,508 in fiscal 2010 to \$8,329,533 in fiscal 2011. Overall, the District's General Fund balance increased from \$646,363 in fiscal 2010 to \$1,079,231 in fiscal 2011, a 66.97% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in local tax and federal sources of revenue in fiscal 2011. The increase in expenditures was due primarily to increased expenditures for regular and special instruction.
- As of June 30, 2011, the District's solvency ratio is 9.44% as compared to 6.52% for the previous year.

### **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 East Marshall 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 East Marshall 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 East Marshall Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor 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.

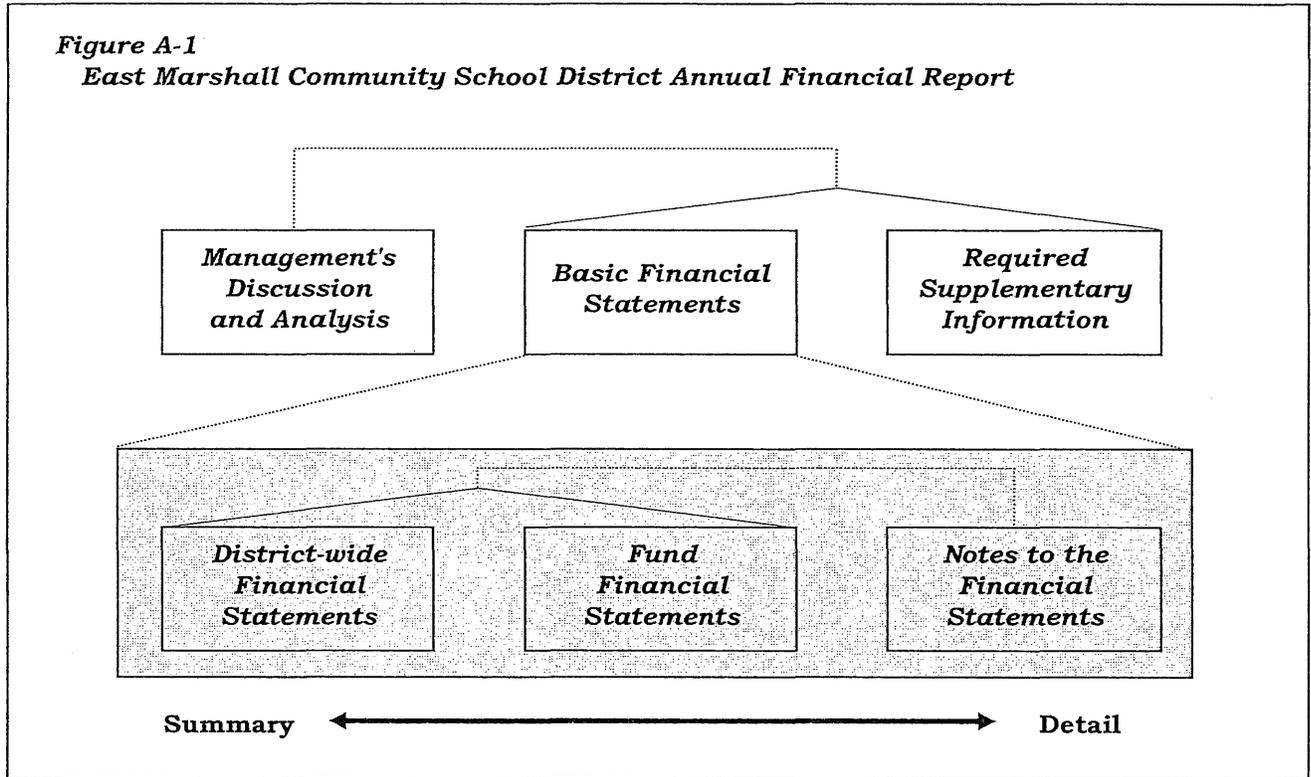


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses, e.g., food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs 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, Special Revenue Funds, Capital Projects Fund and Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

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

- 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 net assets for the year ended June 30, 2011 compared to June 30, 2010.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 6,069,327	5,692,926	159,826	134,373	6,229,153	5,827,299	6.90%
Capital assets	9,187,317	9,384,961	104,781	116,056	9,292,098	9,501,017	-2.20%
Total assets	15,256,644	15,077,887	264,607	250,429	15,521,251	15,328,316	1.26%
Long-term obligations	5,555,077	6,009,686	2,671	1,354	5,557,748	6,011,040	-7.54%
Other liabilities	4,072,799	4,123,740	38,912	38,350	4,111,711	4,162,090	-1.21%
Total liabilities	9,627,876	10,133,426	41,583	39,704	9,669,459	10,173,130	-4.95%
Net assets:							
Invested in capital assets,	4,278,317	4,118,961	104,781	116,056	4,383,098	4,235,017	3.50%
Restricted	890,181	676,374	0	0	890,181	676,374	31.61%
Unrestricted	460,270	149,126	118,243	94,669	578,513	243,795	137.29%
Total net assets	\$ 5,628,768	4,944,461	223,024	210,725	5,851,792	5,155,186	13.51%

The District's combined net assets increased by 13.51%, or \$696,606, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$213,807, or 31.61% from the prior 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 – increased \$334,718, or 137.29%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

	Figure A-4							
	Changes of Net Assets							
	Governmental		Business Type		Total		Total	
	Activities		Activities		District		Change	
2011	2010	2011	2010	2011	2010		2010-11	
Revenues and transfers:								
Program revenues:								
Charges for services	\$ 1,681,908	1,555,712	187,244	187,619	1,869,152	1,743,331		7.22%
Operating grants, contributions and restricted interest	1,052,275	1,492,766	227,788	213,900	1,280,063	1,706,666		-25.00%
Capital grants, contributions and restricted interest	28,176	170,232	0	0	28,176	170,232		-83.45%
General revenues:								
Local tax	3,305,880	2,933,559	0	0	3,305,880	2,933,559		12.69%
Statewide sales, services and use tax	414,925	424,238	0	0	414,925	424,238		-2.20%
Nonspecific program federal funding	170,793	0	0	0	170,793	0		100.00%
Unrestricted state grants	3,056,474	2,677,377	0	0	3,056,474	2,677,377		14.16%
Other	154,501	107,734	2,192	1,293	156,693	109,027		43.72%
Total revenues and transfers	<u>9,864,932</u>	<u>9,361,618</u>	<u>417,224</u>	<u>402,812</u>	<u>10,282,156</u>	<u>9,764,430</u>		<u>5.30%</u>
Program expenses:								
Governmental activities:								
Instruction	5,275,725	5,347,136	0	0	5,275,725	5,347,136		-1.34%
Support services	3,110,794	2,849,815	27,023	20,435	3,137,817	2,870,250		9.32%
Non-instructional programs	4,812	4,861	377,902	365,825	382,714	370,686		3.24%
Other expenses	789,294	771,577	0	0	789,294	771,577		2.30%
Total expenses	<u>9,180,625</u>	<u>8,973,389</u>	<u>404,925</u>	<u>386,260</u>	<u>9,585,550</u>	<u>9,359,649</u>		<u>2.41%</u>
Change in net assets	684,307	388,229	12,299	16,552	696,606	404,781		72.09%
Beginning net assets	<u>4,944,461</u>	<u>4,556,232</u>	<u>210,725</u>	<u>194,173</u>	<u>5,155,186</u>	<u>4,750,405</u>		<u>8.52%</u>
Ending net assets	<u>\$ 5,628,768</u>	<u>4,944,461</u>	<u>223,024</u>	<u>210,725</u>	<u>5,851,792</u>	<u>5,155,186</u>		<u>13.51%</u>

In fiscal 2011, local tax and unrestricted state grants account for 64.49% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.47% of the revenue from business type activities.

The District's total revenues were approximately \$10.28 million of which \$9.86 million was for governmental activities and \$0.42 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 5.30% in revenues and a 2.41% increase in expenses. The increase in expenses was related to an increase in instructional costs.

## Governmental Activities

Revenues for governmental activities were \$9,864,932 and expenses were \$9,180,625. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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, 2011 compared to the year ended June 30, 2010.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 5,275,725	5,347,136	-1.34%	2,857,706	2,616,157	9.23%
Support services	3,110,794	2,849,815	9.16%	3,077,839	2,815,761	9.31%
Non-instructional	4,812	4,861	-1.01%	4,812	4,861	-1.01%
Other expenses	789,294	771,577	2.30%	477,909	317,900	50.33%
Totals	<u>\$ 9,180,625</u>	<u>8,973,389</u>	<u>2.31%</u>	<u>6,418,266</u>	<u>5,754,679</u>	<u>11.53%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$1,681,908.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,080,451.
- The net cost of governmental activities was financed with \$3,305,880 in property tax, \$414,925 in statewide sales, services and use tax, \$3,056,474 in unrestricted state grants, \$170,793 in nonspecific program federal funding, \$19,760 in interest income and \$134,741 in other general revenues.

## Business type Activities

Revenues of the District's business type activities were \$417,224 and expenses were \$404,925. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,717,575, above last year's ending fund balances of a \$1,297,552.

## Governmental Fund Highlights

The District's General Fund financial position is the product of many factors:

- An increase in local tax and federal sources of revenue helped contribute to the increase in revenues for the District, which allowed for an incline in fund balance.

- 
- Interest revenue decreased due to deteriorating interest rates and decreased cash balance.

Other Governmental Funds:

- The fund balance in the Statewide Sales and Services Tax Capital Projects Fund decreased in 2010-11 due to significant expenditures for buildings improvement and reduction of long-term debt. The District is using the sales tax revenue to abate property taxes in the Debt Service Levy. Property tax levied for debt service was \$1.88350 per \$1,000 of taxable value lower due to statewide sales, services and use tax revenue received.

### **Proprietary Fund Highlights**

The Proprietary Funds net assets increased from \$210,725 at June 30, 2010 to \$223,024 at June 30, 2011, representing an increase of 5.84%. The increase was the result of receiving more from federal sources to offset the rise in expenses.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, East Marshall Community School District amended its budget one time to reflect additional expenditures in the instruction and other expenditures functional areas.

The District's revenues were \$84,413 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2011, the District had invested \$9,292,098, 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 2.20% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$450,264.

The original cost of the District's capital assets was \$14,530,320. Governmental funds account for \$14,278,518 with the remainder of \$251,802 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$203,648 at June 30, 2010, compared to \$249,820 at June 30, 2011. The increase in land improvements is due to drainage improvements.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change June 30, 2010-11
	Activities		Activities		District		
	June 30,		June 30,		June 30,		
	2011	2010	2011	2010	2011	2010	
Land	\$ 120,725	120,725	0	0	120,725	120,725	0.00%
Buildings	8,361,638	8,542,448	0	0	8,361,638	8,542,448	-2.12%
Land improvements	249,820	203,648	0	0	249,820	203,648	22.67%
Machinery and equipment	455,134	518,140	104,781	116,056	559,915	634,196	-11.71%
Total	\$ 9,187,317	9,384,961	104,781	116,056	9,292,098	9,501,017	-2.20%

### Long-Term Debt

At June 30, 2011, the District had \$5,557,748 in long-term debt outstanding. This represents a decrease of 7.54% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total Change June 30, 2010-11
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2011	2010	2011	2010	2011	2010	
General obligation bonds	\$ 4,180,000	4,400,000	0	0	4,180,000	4,400,000	-5.00%
Energy loan notes	319,000	366,000	0	0	319,000	366,000	-12.84%
Capital loan notes	410,000	500,000	0	0	410,000	500,000	-18.00%
Early retirement	455,316	616,280	0	0	455,316	616,280	-26.12%
Compensated absences	58,534	60,390	0	0	58,534	60,390	-3.07%
Net OPEB obligation	132,227	67,016	2,671	1,354	134,898	68,370	97.31%
Total	\$ 5,555,077	6,009,686	2,671	1,354	5,557,748	6,011,040	-7.54%

The District had general obligation bonds payable of \$4,180,000 at June 30, 2011.

The District had energy loan notes payable of \$319,000 at June 30, 2011.

The District had capital loan notes payable of \$410,000 at June 30, 2011.

The District had early retirement payable of \$455,316 at June 30, 2011.

The District had compensated absences payable of \$58,534 at June 30, 2011.

The District had a net OPEB liability of \$132,227 in the governmental activities and \$2,671 in the business type activities.

### 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 instructional support program allows the district to generate 10% of the total regular program district cost for the budget year for additional or enhanced current educational programs. The District can participate in the instructional support program by either holding an election, which allows participation for ten years, or by board resolution, which allows participation for five years. The East Marshall School Board implemented the program by resolution for a period of five years starting with 2002-03. The program is funded with a combination of state aid, property tax and income surtax. Income surtax is paid in the year following the year it is levied. On July 10, 2006, the board adopted a resolution to continue participation in the instructional support program for an additional five-year period through June 30, 2012.

Fiscal Year	Instructional Support Levy	ISL State Aid	Income Surtax	Property Tax
2011-12	\$ 313,289	\$ -	\$ 293,303	\$ 19,986
2010-11	\$ 325,358	\$ -	\$ 310,613	\$ 2,771
2009-10	\$ 330,035	\$ 22,045	\$ 306,068	\$ 1,922
2008-09	\$ 324,570	\$ 23,987	\$ 277,317	\$ 23,266
2007-08	\$ 317,699	\$ 26,690	\$ 260,620	\$ 30,389
2006-07	\$ 316,157	\$ 27,797	\$ 273,019	\$ 15,341
2005-06	\$ 318,391	\$ 29,809	\$ 278,567	\$ 10,015
2004-05	\$ 322,049	\$ 31,372	\$ 282,711	\$ 7,606
2003-04	\$ 329,366	\$ 34,096	\$ 263,457	\$ 31,813

- The District's certified enrollment decreased by 4 students in 2010. This decrease means the District will fall under the budget guarantee of 101% in 2011-12. The District resident enrollment trend over the past several years is downward by an average of 15 students per year.
- The District continues to have increasing open enrolled students. In 2010-11, open enrollment revenues were \$1,517,912, an increase of \$168,394 over 2009-10.

Fiscal Year	Enrolled In	Enrolled Out
2011-2012	264.2	35.1
2010-2011	238.2	40.2
2009-2010	220	41.7
2008-2009	209	46.6
2007-2008	202	45.6
2006-2007	193	49.7
2005-2006	181	50.8
2004-2005	140	43.5
2003-2004	120	43.7

- Property tax values continue to increase slightly. The PPEL and PERL levies, fixed dollar levies, will generate more dollars because of the increased valuation. Increasing valuations allow the District to lower the property tax rate for the General Fund, Management Fund, and Debt Service Fund.
- Starting July 1, 2007, the Iowa Public Employees' Retirement System (IPERS) increased the IPERS contribution rate for both employees and employers. The employer rate increased 0.3% in 2009-10 and will continue to increase 0.3% each year through 2010-11. In 2011-12 the total contribution rate increased 2% with 40% of the increase paid by employees and 60% of the increase paid by employers. Going forward, the total contribution rate can change by +/-1% per year. The maximum rate for 2012-13 would be 14.45%. This will be an increasing cost for employee benefits.

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- On April 1, 2009, the District issued \$590,000 of General Obligation PPEL Capital Loan Notes. The financing was used to complete a remodeling project at the middle school to address fire code citations and accessibility issues. The notes will be repaid over the next six years using the voter approved Physical Plant and Equipment Levy (PPEL).

### **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 Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,417,799	145,851	2,563,650
Receivables:			
Property tax:			
Delinquent	49,131	0	49,131
Succeeding year	2,920,804	0	2,920,804
Income surtax	310,613	0	310,613
Accounts	9,472	0	9,472
Due from other governments	361,508	0	361,508
Inventories	0	13,975	13,975
Capital assets, net of accumulated depreciation	9,187,317	104,781	9,292,098
<b>Total assets</b>	<b>15,256,644</b>	<b>264,607</b>	<b>15,521,251</b>
<b>Liabilities</b>			
Accounts payable	84,130	0	84,130
Salaries and benefits payable	972,092	32,477	1,004,569
Accrued interest payable	31,660	0	31,660
Deferred revenue:			
Succeeding year property tax	2,920,804	0	2,920,804
Other	64,113	0	64,113
Unearned revenue	0	6,435	6,435
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	230,000	0	230,000
Energy loan notes	49,000	0	49,000
Capital loan notes	95,000	0	95,000
Early retirement	129,020	0	129,020
Compensated absences	58,534	0	58,534
Portion due after one year:			
General obligation bonds	3,950,000	0	3,950,000
Energy loan notes	270,000	0	270,000
Capital loan notes	315,000	0	315,000
Early retirement	326,296	0	326,296
Net OPEB liability	132,227	2,671	134,898
<b>Total liabilities</b>	<b>9,627,876</b>	<b>41,583</b>	<b>9,669,459</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	4,278,317	104,781	4,383,098
Restricted for:			
Categorical funding	251,837	0	251,837
Physical plant and equipment levy	64,726	0	64,726
Public education and recreation levy	14,275	0	14,275
Capital projects	353,618	0	353,618
Management levy	88,568	0	88,568
Student activities	111,482	0	111,482
Debt service	5,675	0	5,675
Unrestricted	460,270	118,243	578,513
<b>Total net assets</b>	<b>\$ 5,628,768</b>	<b>223,024</b>	<b>5,851,792</b>

SEE NOTES TO FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Charges for Expenses	Operating Contributions and Restricted Interest	Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	Total
<b>Functions/Programs:</b>							
<b>Governmental activities:</b>							
Instruction:							
Regular	\$ 3,233,472	1,188,059	541,458	0	(1,503,955)	0	(1,503,955)
Special	1,148,872	364,408	93,707	0	(690,757)	0	(690,757)
Other	893,381	127,164	103,223	0	(662,994)	0	(662,994)
	<u>5,275,725</u>	<u>1,679,631</u>	<u>738,388</u>	<u>0</u>	<u>(2,857,706)</u>	<u>0</u>	<u>(2,857,706)</u>
Support services:							
Student	311,389	0	0	0	(311,389)	0	(311,389)
Instructional staff	346,031	0	0	0	(346,031)	0	(346,031)
Administration	1,023,417	0	0	0	(1,023,417)	0	(1,023,417)
Operation and maintenance of plant	830,331	0	0	0	(830,331)	0	(830,331)
Transportation services	599,626	2,277	2,502	28,176	(566,671)	0	(566,671)
	<u>3,110,794</u>	<u>2,277</u>	<u>2,502</u>	<u>28,176</u>	<u>(3,077,839)</u>	<u>0</u>	<u>(3,077,839)</u>
Non-instructional programs:							
Community service operations	4,812	0	0	0	(4,812)	0	(4,812)
	<u>4,812</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(4,812)</u>	<u>0</u>	<u>(4,812)</u>
Other expenditures:							
Facilities acquisitions	28,353	0	0	0	(28,353)	0	(28,353)
Long-term debt interest	208,078	0	0	0	(208,078)	0	(208,078)
AEA flowthrough	311,385	0	311,385	0	0	0	0
Depreciation(unallocated)*	241,478	0	0	0	(241,478)	0	(241,478)
	<u>789,294</u>	<u>0</u>	<u>311,385</u>	<u>0</u>	<u>(477,909)</u>	<u>0</u>	<u>(477,909)</u>
Total governmental activities	9,180,625	1,681,908	1,052,275	28,176	(6,418,266)	0	(6,418,266)
<b>Business Type activities:</b>							
Support services:							
Administration	18,076	0	0	0	0	(18,076)	(18,076)
Operation and maintenance of plant	8,947	0	0	0	0	(8,947)	(8,947)
Non-instructional programs:							
Nutrition services	377,902	187,244	227,788	0	0	37,130	37,130
Total business type activities	<u>404,925</u>	<u>187,244</u>	<u>227,788</u>	<u>0</u>	<u>0</u>	<u>10,107</u>	<u>10,107</u>
Total	\$ 9,585,550	1,869,152	1,280,063	28,176	(6,418,266)	10,107	(6,408,159)
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 2,713,156	0	2,713,156
Capital outlay					204,983	0	204,983
Debt service					63,211	0	63,211
Income surtax					324,530	0	324,530
Statewide sales, services and use tax					414,925	0	414,925
Non specific program federal funding					170,793	0	170,793
Unrestricted state grants					3,056,474	0	3,056,474
Unrestricted investment earnings					19,760	983	20,743
Other					134,741	1,209	135,950
Total general revenues & transfers					<u>7,102,573</u>	<u>2,192</u>	<u>7,104,765</u>
Changes in net assets					684,307	12,299	696,606
Net assets beginning of year					4,944,461	210,725	5,155,186
Net assets end of year					<u>\$ 5,628,768</u>	<u>223,024</u>	<u>5,851,792</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General	Total Other Nonmajor Governmental Funds	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,876,210	541,589	2,417,799
Receivables:			
Property tax			
Delinquent	40,763	8,368	49,131
Succeeding year	2,297,144	623,660	2,920,804
Income surtax	310,613	0	310,613
Accounts	9,472	0	9,472
Due from other governments	266,665	94,843	361,508
<b>Total assets</b>	<b>\$ 4,800,867</b>	<b>1,268,460</b>	<b>6,069,327</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 77,905	6,225	84,130
Salaries and benefits payable	971,861	231	972,092
Deferred revenue:			
Succeeding year property tax	2,297,144	623,660	2,920,804
Income surtax	310,613	0	310,613
Other	64,113	0	64,113
<b>Total liabilities</b>	<b>3,721,636</b>	<b>630,116</b>	<b>4,351,752</b>
Fund balances:			
Restricted for:			
Categorical funding	251,837	0	251,837
Debt service	0	5,675	5,675
Management levy purposes	0	88,568	88,568
Student activities	0	111,482	111,482
Public education and recreation levy	0	14,275	14,275
School infrastructure	0	353,618	353,618
Physical plant and equipment	0	64,726	64,726
Unassigned	827,394	0	827,394
<b>Total fund balances</b>	<b>1,079,231</b>	<b>638,344</b>	<b>1,717,575</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,800,867</b>	<b>1,268,460</b>	<b>6,069,327</b>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

Total fund balances of governmental funds (page 22)	\$ 1,717,575
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,187,317
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	310,613
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(31,660)
Long-term liabilities, including compensated absences, general obligation bonds, early retirement, energy loan notes, capital loan notes, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,555,077)</u>
Net assets of governmental activities (page 20)	<u>\$ 5,628,768</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 2,792,994	923,266	3,716,260
Tuition	1,524,337	0	1,524,337
Other	164,816	146,757	311,573
Intermediate sources	2,937	0	2,937
State sources	3,870,020	28,464	3,898,484
Federal sources	406,297	0	406,297
Total revenues	<u>8,761,401</u>	<u>1,098,487</u>	<u>9,859,888</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	3,155,335	163,232	3,318,567
Special	1,148,872	0	1,148,872
Other	769,090	130,932	900,022
	<u>5,073,297</u>	<u>294,164</u>	<u>5,367,461</u>
Support services:			
Student	306,757	713	307,470
Instructional staff	318,763	31,946	350,709
Administration	1,000,714	17,673	1,018,387
Operation and maintenance of plant	769,527	57,390	826,917
Transportation	487,283	96,101	583,384
	<u>2,883,044</u>	<u>203,823</u>	<u>3,086,867</u>
Non-instructional programs			
Community service operations	0	4,812	4,812
Other expenditures:			
Facilities acquisitions	0	101,988	101,988
Long-term debt:			
Principal	0	357,000	357,000
Interest and fiscal charges	0	210,852	210,852
AEA flowthrough	311,385	0	311,385
	<u>311,385</u>	<u>669,840</u>	<u>981,225</u>
Total expenditures	<u>8,267,726</u>	<u>1,172,639</u>	<u>9,440,365</u>
Excess(Deficiency) of revenues over(under) expenditures	493,675	(74,152)	419,523
Other financing sources(uses):			
Transfer in	500	508,926	509,426
Transfer out	(61,807)	(447,619)	(509,426)
Proceeds from the sale of equipment	500	0	500
Total other financing sources(uses)	<u>(60,807)</u>	<u>61,307</u>	<u>500</u>
Net change in fund balances	432,868	(12,845)	420,023
Fund balance beginning of year, as restated	646,363	651,189	1,297,552
Fund balance end of year	<u>\$ 1,079,231</u>	<u>638,344</u>	<u>1,717,575</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2011

Net change in fund balances - total governmental funds (page 24) \$ 420,023

*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 reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense, and loss on disposal in the year are as follows:

Capital outlays	\$ 238,545	
Depreciation expense	(436,189)	(197,644)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 357,000

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 4,545

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 2,774

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds as follows:

Early retirement	160,964	
Compensated absences	1,856	
Other postemployment benefits	(65,211)	97,609

Changes in net assets of governmental activities (page 21) \$ 684,307

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	School Nutrition
<b>Assets</b>	
Cash and pooled investments	\$ 145,851
Inventories	13,975
Capital assets, net of accumulated depreciation	104,781
<b>Total assets</b>	264,607
 <b>Liabilities</b>	
Salaries and benefits payable	32,477
Unearned revenue	6,435
Net OPEB liability	2,671
<b>Total liabilities</b>	41,583
 <b>Net Assets</b>	
Invested in capital assets	104,781
Unrestricted	118,243
<b>Total net assets</b>	\$ 223,024

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 187,244
Miscellaneous	1,209
TOTAL OPERATING REVENUES	188,453
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	14,571
Benefits	2,154
Services	1,351
	18,076
Operation and maintenance of plant services:	
Services	8,436
Supplies	511
	8,947
Total support services	27,023
Non-instructional programs:	
Food service operations:	
Salaries	154,845
Benefits	36,587
Services	379
Supplies	172,016
Depreciation	14,075
Total non-instructional programs	377,902
TOTAL OPERATING EXPENSES	404,925
OPERATING LOSS	(216,472)
NON-OPERATING REVENUES:	
State sources	4,592
Federal sources	223,196
Interest income	983
TOTAL NON-OPERATING REVENUES	228,771
Change in net assets	12,299
Net assets beginning of year	210,725
Net assets end of year	\$ 223,024

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 187,713
Cash received from miscellaneous	1,209
Cash payments to employees for services	(203,433)
Cash payments to suppliers for goods or services	(155,730)
Net cash used in operating activities	(170,241)
Cash flows from non-capital financing activities:	
State grants received	4,592
Federal grants received	204,288
Net cash provided by non-capital financing activities	208,880
Cash flows from capital and related financing activities:	
Purchase of capital assets	(2,800)
Cash flows from investing activities:	
Interest on investments	983
Net increase in cash and cash equivalents	36,822
Cash and cash equivalents at beginning of year	109,029
Cash and cash equivalents at end of year	\$ 145,851
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (216,472)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	18,908
Depreciation	14,075
Decrease in inventories	11,370
Decrease in accounts payable	(3,314)
Increase in salaries and benefits payable	3,406
Increase in unearned revenue	469
Increase in other postemployment benefits	1,317
Net cash used in operating activities	\$ (170,241)

During the year ended June 30, 2011, the District received Federal commodities valued at \$18,908.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2011

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
<b>Assets</b>	
Cash and pooled investments	\$ 35,941
<b>Liabilities</b>	<u>0</u>
<b>Net assets</b>	
Reserved for scholarships	<u>\$ 35,941</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest income	\$ 393
Deductions:	
Support services:	
Scholarships awarded	599
Change in net assets	(206)
Net assets beginning of year	36,147
Net assets end of year	\$ 35,941

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

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

The East Marshall 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 cities of Le Grand, Gilman, Laurel and Ferguson, Iowa, and the predominate agricultural territory in Marshall, Tama, Poweshiek and Jasper Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, East Marshall 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 East Marshall 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 do 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, Tama, Poweshiek and Jasper Counties 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 that are attributed to the acquisition, construction, or improvement of those assets.

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

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

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

The District also reports fiduciary funds which focus on net 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 collected within 60 days after year end.

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services,

administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund 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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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, equipment, and intangibles 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
Buildings	1,000
Land improvements	1,000
Intangibles	50,000
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	20-50 years
Land improvements	20 years
Intangibles	2 or more 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue in 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 in the School Nutrition Fund are monies collected for lunches that have not been served. Lunch account balances will be reimbursed or served

lunches. Revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. 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 Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Unassigned - All amounts not included in other spendable classifications.

Restricted Net 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, 2011 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 and the Treasurer of the State of Iowa; 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, 2011 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$118,032 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

**(3) Transfers**

The detail of transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Management Levy	\$ 500
Debt Service	General	61,807
Debt Service	Special Revenue: Physical Plant and Equipment Levy	107,163
Debt Service	Statewide Sales and Services Tax	339,956
Total		<u>\$ 509,426</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 from the Special Revenue, Management Levy Fund to the General Fund was for insurance deductibles originally paid from the General Fund.

The transfer from the General Fund to the Debt Service Fund was to make the annual payment on the District's capital loan note.

The transfer from the Special Revenue, Physical Plant and Equipment Levy to the Debt Service Fund was to make the annual payment on the District's capital loan note.

The transfer from the Statewide Sales and Services Tax to the Debt Service Fund was for debt relief on the District's general obligation bonds.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 249,002	2,800	0	251,802
Less accumulated depreciation	132,946	14,075	0	147,021
Business type activities capital assets, net	<u>\$ 116,056</u>	<u>(11,275)</u>	<u>0</u>	<u>104,781</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 120,725	0	0	120,725
Construction in progress	0	0	0	0
Total capital assets not being depreciated	120,725	0	0	120,725
Capital assets being depreciated:				
Buildings	11,203,177	44,485	0	11,247,662
Land improvements	404,912	62,355	0	467,267
Machinery and equipment	2,352,112	131,705	40,953	2,442,864
Total capital assets being depreciated	13,960,201	238,545	40,953	14,157,793
Less accumulated depreciation for:				
Buildings	2,660,729	225,295	0	2,886,024
Land improvements	201,264	16,183	0	217,447
Machinery and equipment	1,833,972	194,711	40,953	1,987,730
Total accumulated depreciation	4,695,965	436,189	40,953	5,091,201
Total capital assets being depreciated, net	9,264,236	(197,644)	0	9,066,592
Governmental activities capital assets, net	\$ 9,384,961	(197,644)	0	9,187,317

Governmental activities:		
Instruction:		
Regular		\$ 75,575
Support services:		
Operation and maintenance of plant		17,694
Transportation		101,442
		194,711
Unallocated depreciation		241,478
Total governmental activities depreciation expense		\$ 436,189
Business type activities:		
Food service operations		\$ 14,075

#### (5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,400,000	0	220,000	4,180,000	230,000
Energy loan notes	366,000	0	47,000	319,000	49,000
Capital loan notes	500,000	0	90,000	410,000	95,000
Compensated absences	60,390	58,534	60,390	58,534	58,534
Early retirement	616,280	0	160,964	455,316	129,020
Net OPEB liability	67,016	65,211	0	132,227	0
Total	\$ 6,009,686	123,745	578,354	5,555,077	561,554
Business type activities:					
Net OPEB liability	\$ 1,354	1,317	0	2,671	0

### General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue July 1, 2005				
	Interest Rates		Principal	Interest	Total
2012	4.38	% \$	230,000	168,808	398,808
2013	4.38		235,000	158,745	393,745
2014	4.38		245,000	148,464	393,464
2015	3.60		255,000	137,745	392,745
2016	3.70		265,000	128,565	393,565
2017-2021	3.88-4.00		1,510,000	481,229	1,991,229
2022-2025	4.05-4.20		1,440,000	152,164	1,592,164
Total			\$ 4,180,000	1,375,720	5,555,720

### Energy Loan Notes

During the year ended June 30, 2008 the District issued capital loan notes for energy improvement projects. Details of the District's June 30, 2011 energy loan notes indebtedness, which will be paid from the General Fund, is as follows:

Year Ending June 30,	Energy loan notes dated February 1, 2007				
	Interest Rates		Principal	Interest	Total
2012	4.05	% \$	49,000	12,920	61,920
2013	4.05		50,000	10,935	60,935
2014	4.05		52,000	8,910	60,910
2015	4.05		54,000	6,804	60,804
2016	4.05		56,000	4,617	60,617
2017	4.05		58,000	2,349	60,349
Total			\$ 319,000	46,535	365,535

### Capital Loan Notes

During the year ended June 30, 2009 the District issued capital loan notes for equipment purchases. Details of the District's June 30, 2011 capital loan notes indebtedness, which will be paid from the Special Revenue, Physical Plant and Equipment Levy, is as follows:

Year Ending June 30,	Capital loan notes dated April 1, 2009				
	Interest Rates		Principal	Interest	Total
2012	3.00	% \$	95,000	14,687	109,687
2013	3.50		100,000	11,838	111,838
2014	3.75		105,000	8,337	113,337
2015	4.00		110,000	4,400	114,400
Total			\$ 410,000	39,262	449,262

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an

application which is required to be approved by the Board of Education. The retiree may maintain their membership in the group health insurance. Retirees are paid \$500 per month for single health insurance. The employee shall not be on disability leave at the time of retirement. Early retirement benefits paid during the year ended June 30, 2011, totaled \$160,964. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) 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 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$364,259, \$340,275 and \$318,238, respectively, equal to the required contributions for each year.

**(7) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 68 active and 15 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the District's OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 171,419
Interest on net OPEB obligation	1,709
Adjustment to annual required contribution	11,935
Annual OPEB cost	<u>161,193</u>
Contributions made	<u>(94,665)</u>
Increase in net OPEB obligation	66,528
Net OPEB obligation beginning of year	<u>68,370</u>
Net OPEB obligation end of year	<u>\$ 134,898</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$94,665 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 160,844	-100.2%	\$ 68,370
2011	161,193	58.7%	134,898

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1,417,884, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,417,884. The covered payroll (annual payroll of active employees covered by the plan) was \$4,184,344, and the ratio of the UAAL to covered payroll was 33.89%. As of June 30, 2011 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 event 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 July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies performed by the Society of Actuaries.

Projected claim costs of the medical plan are \$517.83 for single and \$1,294.58 for family under 250 Deductible and \$446.97 for single, \$1,117.43 for family under 1,000 Deductible, and \$362.60 for single and \$906.50 for family under 2,500 Deductible for retirees less than age 65 and \$2,960.64 per month for retirees who have attained age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(8) Risk Management**

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

**(9) 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 \$311,385 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Categorical Funding**

The District's ending balances for categorical funding by project as of June 30, 2011 are as follows:

Project	Amount
At-Risk supplemental weighting	\$ 4,972
Market factor	4,965
Market factor incentives	4,163
Home school assistance program	17,450
Professional development	18,001
Teacher Salary Supplement	746
Dropout and dropout prevention	111,003
Four year-old preschool	76,950
Professional development for model core curriculum	13,587
Total	\$ 251,837

(11) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ 321,651	94,893
Change in fund type classification per implementation of GASB Statement No. 54	94,893	(94,893)
Balances July 1, 2010, as restated	<u>\$ 416,544</u>	<u>-</u>

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

EAST MARSHALL 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, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to	Net as
	Fund	Fund		Original	Final	Actual	% of
	Actual	Actual		Actual		Variance	Budget
<b>Revenues:</b>							
Local sources	\$ 5,552,170	189,436	5,741,606	5,623,982	5,623,982	117,624	102.09%
Intermediate sources	2,937	0	2,937	0	0	2,937	100.00%
State sources	3,898,484	4,592	3,903,076	4,214,617	4,214,617	(311,541)	92.61%
Federal sources	406,297	223,196	629,493	354,100	354,100	275,393	177.77%
Total revenues	<u>9,859,888</u>	<u>417,224</u>	<u>10,277,112</u>	<u>10,192,699</u>	<u>10,192,699</u>	<u>84,413</u>	<u>100.83%</u>
<b>Expenditures/Expenses:</b>							
Instruction	5,367,461	0	5,367,461	5,874,566	5,874,566	507,105	91.37%
Support services	3,086,867	27,023	3,113,890	3,130,143	3,350,000	236,110	92.95%
Non-instructional programs	4,812	377,902	382,714	371,000	385,000	2,286	99.41%
Other expenditures	981,225	0	981,225	1,003,243	1,003,243	22,018	97.81%
Total expenditures/expenses	<u>9,440,365</u>	<u>404,925</u>	<u>9,845,290</u>	<u>10,378,952</u>	<u>10,612,809</u>	<u>767,519</u>	<u>92.77%</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	419,523	12,299	431,822	(186,253)	(420,110)	851,932	
Other financing sources, net	500	0	500	0	0	500	
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	420,023	12,299	432,322	(186,253)	(420,110)	852,432	
Balance beginning of year	1,297,552	210,725	1,579,102	1,150,397	1,150,397	428,705	
Balance end of year	<u>\$ 1,717,575</u>	<u>223,024</u>	<u>2,011,424</u>	<u>964,144</u>	<u>730,287</u>	<u>1,281,137</u>	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2011, the District adopted one budget amendment increasing budgeted expenditures by \$233,857.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 1,417,884	\$ 1,417,884	0.00%	\$ 4,057,796	34.94%
2011	July 1, 2009	0	1,417,884	1,417,884	0.00%	\$ 4,184,344	33.89%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress

OTHER SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Public		Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
			Education and Recreation Levy	Total			
<b>Assets</b>							
Cash and pooled investments	\$ 89,290	113,258	13,873	216,421	320,535	4,633	541,589
Receivables:							
Property tax:							
Delinquent	3,958	0	402	4,360	2,966	1,042	8,368
Succeeding year	223,656	0	25,455	249,111	188,555	185,994	623,660
Due from other governments	0	0	0	0	94,843	0	94,843
<b>Total assets</b>	<b>\$ 316,904</b>	<b>113,258</b>	<b>39,730</b>	<b>469,892</b>	<b>606,899</b>	<b>191,669</b>	<b>1,268,460</b>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	\$ 4,680	1,545	0	6,225	0	0	6,225
Salaries and benefits payable	0	231	0	231	0	0	231
Deferred revenue:							
Succeeding year property tax	223,656	0	25,455	249,111	188,555	185,994	623,660
Total liabilities	228,336	1,776	25,455	255,567	188,555	185,994	630,116
Fund balances:							
Restricted for:							
Management levy	88,568	0	0	88,568	0	0	88,568
Student activity	0	111,482	0	111,482	0	0	111,482
Public education and recreation levy	0	0	14,275	14,275	0	0	14,275
Debt service	0	0	0	0	0	5,675	5,675
School infrastructure	0	0	0	0	353,618	0	353,618
Physical plant and equipment	0	0	0	0	64,726	0	64,726
Total fund balances	88,568	111,482	14,275	214,325	418,344	5,675	638,344
<b>Total liabilities and fund balances</b>	<b>\$ 316,904</b>	<b>113,258</b>	<b>39,730</b>	<b>469,892</b>	<b>606,899</b>	<b>191,669</b>	<b>1,268,460</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2011

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Public		Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
			Education and Recreation Levy	Total Special Revenue			
REVENUES:							
Local sources:							
Local tax	\$ 240,147	0	24,381	264,528	595,527	63,211	923,266
Other	1,110	144,473	31	145,614	1,098	45	146,757
State sources	136	0	14	150	28,278	36	28,464
TOTAL REVENUES	241,393	144,473	24,426	410,292	624,903	63,292	1,098,487
EXPENDITURES:							
Current:							
Instruction:							
Regular	163,232	0	0	163,232	0	0	163,232
Other	0	130,932	0	130,932	0	0	130,932
Support services:							
Student	713	0	0	713	0	0	713
Instructional staff	433	1,086	0	1,519	30,427	0	31,946
Administration	5,847	2,240	0	8,087	9,586	0	17,673
Operation and maintenance of plant	49,263	4,118	794	54,175	3,215	0	57,390
Transportation	24,031	0	0	24,031	72,070	0	96,101
Non-instructional programs							
Community service operations	0	0	4,812	4,812	0	0	4,812
Other expenditures:							
Facilities acquisitions	0	0	41,302	41,302	60,686	0	101,988
Long-term debt:							
Principal	0	0	0	0	0	357,000	357,000
Interest and fiscal charges	0	0	0	0	0	210,852	210,852
TOTAL EXPENDITURES	243,519	138,376	46,908	428,803	175,984	567,852	1,172,639
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(2,126)	6,097	(22,482)	(18,511)	448,919	(504,560)	(74,152)
OTHER FINANCING SOURCES (USES):							
Transfer in	0	0	0	0	0	508,926	508,926
Transfer out	(500)	0	0	(500)	(447,119)	0	(447,619)
Total other financing sources (uses)	(500)	0	0	(500)	(447,119)	508,926	61,307
NET CHANGE IN FUND BALANCES	(2,626)	6,097	(22,482)	(19,011)	1,800	4,366	(12,845)
FUND BALANCE BEGINNING OF YEAR, AS RESTATED	91,194	105,385	36,757	233,336	416,544	1,309	651,189
FUND BALANCE END OF YEAR	\$ 88,568	111,482	14,275	214,325	418,344	5,675	638,344

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Physical Plant and Equipment Levy	Statewide Sales, Services and Use Tax	Total
<b>Assets</b>			
Cash and pooled investments	\$ 61,750	258,785	320,535
Receivables:			
Property tax:			
Delinquent	2,966	0	2,966
Succeeding year	188,555	0	188,555
Due from other governments	10	94,833	94,843
<b>Total assets</b>	<b>\$ 253,281</b>	<b>353,618</b>	<b>606,899</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 188,555	0	188,555
Total liabilities	188,555	0	188,555
Fund balances:			
Restricted for:			
School infrastructure	0	353,618	353,618
Physical plant and equipment	64,726	0	64,726
Total fund balances	64,726	353,618	418,344
<b>Total liabilities and fund balances</b>	<b>\$ 253,281</b>	<b>353,618</b>	<b>606,899</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Physical Plant and Equipment Levy	Statewide Sales, Services and Use Tax	Total
REVENUES:			
Local sources:			
Local tax	\$ 180,602	414,925	595,527
Other	206	892	1,098
State sources	102	28,176	28,278
TOTAL REVENUES	180,910	443,993	624,903
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	30,427	0	30,427
Administration	9,586	0	9,586
Operation and maintenance of plant	3,215	0	3,215
Transportation	0	72,070	72,070
Other expenditures:			
Facilities acquisitions	60,686	0	60,686
TOTAL EXPENDITURES	103,914	72,070	175,984
EXCESS OF REVENUES OVER EXPENDITURES	76,996	371,923	448,919
OTHER FINANCING USES:			
Transfer out	(107,163)	(339,956)	(447,119)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING USES OVER (UNDER) EXPENDITURES	(30,167)	31,967	1,800
FUND BALANCE BEGINNING OF YEAR, AS RESTATED	94,893	321,651	416,544
FUND BALANCE END OF YEAR	\$ 64,726	353,618	418,344

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Drama	\$ 11,195	2,548	3,903	60	9,900
HS Vocal	3,101	5,199	4,952	20	3,368
Spec MS Vocal	1,130	437	1,160	1,511	1,918
HS Band	2,122	1,738	(567)	13	4,440
Band Fundraising	5,290	15,189	19,833	35	681
HS Band Resale	1	50	51	0	0
Spec MS Band	2,817	1,824	4,597	26	70
MS Band Resale	73	574	439	0	208
Athletics	11,223	7,986	7,781	7,284	18,712
Athletic Uniforms	12,978	5,850	5,693	97	13,232
Spec MS Athletics	12,071	4,340	4,232	109	12,288
Cross Country	0	50	1,071	1,021	0
Golf	0	720	2,041	1,321	0
Boys Basketball	0	5,161	3,402	(1,759)	0
Football	0	14,609	11,458	(3,151)	0
Baseball	0	4,660	3,878	(782)	0
Boys Track	0	0	849	849	0
Wrestling	(150)	6,512	4,868	(1,494)	0
Alumni Basketball Uniforms	590	0	13	4	581
Girls BB	0	4,952	3,213	(1,739)	0
Volleyball	0	9,028	7,691	(1,337)	0
Softball	0	4,810	3,358	(1,452)	0
Girls Track	0	0	1,265	1,265	0
Interest	0	1,163	267	(896)	0
Middle School Fine Arts	14,042	3,900	3,181	(1,406)	13,355
MS Yearbook	501	2,090	2,030	21	582
Spec MS Art	1,180	0	(2)	9	1,191
MS Student Council	0	0	23	23	0
MS Student Council-Saved for Sign	0	0	(23)	(23)	0
MS Activities	385	349	352	7	389
High School Fine Arts	708	0	(2)	5	715
Class of 2011	6,158	0	6,152	46	52
Class of 2012	0	11,486	6,854	9	4,641
Class of 2013	0	0	8	8	0
Class of 2014	275	0	108	(167)	0
HS Yearbook	5,608	10,581	10,420	69	5,838
Spec HS Art	2,059	1,463	1,841	12	1,693
Silk Screening	1,555	2,192	3,298	8	457
Cheerleaders	0	3,683	416	261	3,528
FFA	9,860	10,258	8,947	98	11,269
National Honor Society	227	0	(806)	10	1,043
HS Student Council	386	1,071	131	5	1,331
<b>Total</b>	<b>\$ 105,385</b>	<b>144,473</b>	<b>138,376</b>	<b>0</b>	<b>111,482</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 3,716,260	3,329,046	3,233,021	3,084,414	3,146,783	3,159,955	3,202,645	2,778,213
Tuition	1,524,337	1,372,977	1,287,996	1,276,568	1,249,157	1,084,449	815,148	655,870
Other	311,573	289,867	324,444	487,198	492,617	524,229	279,311	295,208
Intermediate sources	2,937	10,414	0	0	0	0	0	0
State sources	3,898,484	3,517,058	3,821,565	3,846,326	3,448,468	3,581,775	3,159,379	3,052,978
Federal sources	406,297	812,903	274,774	252,322	400,479	228,858	272,939	190,579
Total	\$ 9,859,888	9,332,265	8,941,800	8,946,828	8,737,504	8,579,266	7,729,422	6,972,848
Expenditures:								
Current:								
Instruction:								
Regular	\$ 3,318,567	3,254,908	3,154,199	3,263,097	3,070,843	2,738,703	2,575,286	2,704,570
Special	1,148,872	1,166,517	1,246,523	1,106,333	1,034,926	889,705	821,571	946,698
Other	900,022	922,263	883,985	756,644	789,754	722,381	677,104	608,756
Support services:								
Student	307,470	289,971	283,357	280,838	278,505	253,518	250,249	239,395
Instructional staff	350,709	323,819	392,755	289,776	269,037	328,213	296,343	256,506
Administration	1,018,387	866,715	828,893	826,278	800,010	800,782	779,341	674,193
Operation and maintenance of plant	826,917	806,918	853,631	943,058	805,329	944,385	664,386	664,676
Transportation	583,384	604,605	475,124	724,232	468,739	468,872	503,504	470,553
Central	0	0	0	0	0	0	0	1,396
Non-instructional programs								
Food service	0	0	2,527	3,892	3,635	2,354	2,354	3,364
Community service	4,812	4,861	5,131	5,473	5,738	3,470	10,904	20,289
Other expenditures:								
Facilities acquisitions	101,988	596,714	848,284	1,094,240	4,656,475	1,289,281	86,941	156,383
Long-term debt:								
Principal	357,000	345,000	244,000	230,000	185,000	190,000	0	0
Interest and fiscal charges	210,852	225,948	228,861	232,517	213,226	182,405	0	0
AEA flow-through	311,385	308,807	251,378	248,491	231,586	218,952	217,704	221,438
Total	\$ 9,440,365	9,717,046	9,698,648	10,004,869	12,812,803	9,033,021	6,885,687	6,968,217

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2011

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 11	\$ 37,980
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 11	185,216 *
			<u>223,196</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 11	76,363
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	13,166
			<u>89,529</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 11	<u>29,938</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 11	<u>5,688</u>
STATE FISCAL STABILIZATION FUND CLUSTER:			
ARRA - STATE FISCAL STABILIZATION FUND - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 11	38,226
ARRA - STATE FISCAL STABILIZATION FUND - GOVERNMENT SERVICES, RECOVERY ACT	84.397	FY 11	34,096
			<u>72,322</u>
ARRA - EDUCATION FOR HOMELESS CHILDREN AND YOUTH, RECOVERY ACT	84.387	FY 10	<u>7,997</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 11	37,552
SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	36,900
			<u>74,452</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 11	<u>8,626</u>
EDUCATION JOB FUNDS	84.410	FY 11	<u>98,491</u>
TOTAL			<u>\$ 610,239</u>

\* - Includes \$18,908 of non-cash awards

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the East Marshall 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.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

# NOLTE, CORNMAN & JOHNSON P.C.

## Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

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  
East Marshall 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 East Marshall Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 19, 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 East Marshall 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 an opinion on the effectiveness of East Marshall Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Marshall 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 that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Finding and Questioned Costs as item II-A-11 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Marshall 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, 2011 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.

East Marshall 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 East Marshall 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 East Marshall Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

December 19, 2011

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

**Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

Independent Auditor's Report on Compliance  
with Requirements That Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control over Compliance in Accordance  
with OMB Circular A-133

To the Board of Education of  
East Marshall Community School District

Compliance

We have audited East Marshall Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of East Marshall Community School District's major federal programs for the year ended June 30, 2011. East Marshall 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 East Marshall Community School District's management. Our responsibility is to express an opinion on East Marshall 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 East Marshall 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 East Marshall Community School District's compliance with those requirements.

In our opinion, East Marshall Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

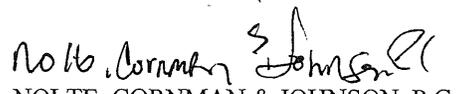
The management of East Marshall Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered East Marshall 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Marshall 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 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 over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, 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-11 to be a material weakness.

East Marshall Community School District's responses to the 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 East Marshall 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 Sample Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

December 19, 2011

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was 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 were required to be reported in accordance with Office of Management and Budget Circular A-B3, Section .510(a).
- (g) Major programs were as follows:
  - Clustered
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual
    - CFDA Number 84.410 – Education Job Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Marshall Community School District did not qualify as a low-risk auditee.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-11 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 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 continue to investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2011  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA 84.410: Education Job Funds  
Federal Award Year: 2011  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-11 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 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 continue to investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-11 Certified Budget - District disbursements for the year ended June 30, 2011, did not exceed the amount budgeted.
- IV-B-11 Questionable Disbursements - We noted during our audit that the District purchased gift cards for Christmas gifts for needy families. Giving gift certificates/cards does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.
- Response - Staff has been notified that purchases of gift cards cannot be made with public funds.
- Conclusion - Response accepted.
- IV-C-11 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-11 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-11 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-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-11 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-11 Deposits and Investments - We noted during our audit that the District had an investment with Ameriprise Financial in the Private Purpose Trust Fund. This investment, a face amount security, is not FDIC insured and does not meet the District policy on investments.
- Recommendation - The District should invest these funds according to the Districts established policy.
- Response - When the present security matures, the principal will be moved to a Certificate of Deposit with Ameriprise Bank which is FDIC insured.
- Conclusion - Response accepted.
- IV-J-11 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-K-11 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	321,651
Revenues:			
Sales tax revenues	\$	414,925	
Other local revenues		892	
School infrastructure supplemental amount		28,176	443,993
			<u>765,644</u>
Expenditures:			
Equipment		72,070	
Transfers to Other Funds:			
Debt Service Fund		339,956	412,026
			<u>412,026</u>
Ending Balance		\$	<u>353,618</u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.88350	\$ 339,956

IV-M-11 Checks Outstanding - We noted during our audit that the District had checks included in the nutrition fund bank reconciliation that have been outstanding for over a year.

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

Response - The District is following procedures established by the State Treasurer that requires checks to be over three years old before they are submitted as unclaimed property. Prior to submitting to unclaimed property, the District attempts to contact the owner of the outstanding checks so they can be reissued.

Conclusion - Response accepted.