

EAST UNION 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 Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Lynn Kruse	President	2011
Shannon Harper	Vice President	2011
Lois Munden	Board Member	2011
Kenneth Hagen	Board Member	2013
Sarah Long	Board Member	2013
<b>School Officials</b>		
Dr. Pam Vogel	Superintendent	2011
Kay Vaughn	Co-Board Treasurer	2011
Billie Jo Greene	Business Manager/ Board Secretary & Co-Board Treasurer	2011
Brian Gruhn	Attorney	2011
Drew Bracken	Attorney	2011

EAST UNION 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**

To the Board of Education of the  
East Union 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 Union Community School District, Afton, Iowa, 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. 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 Union Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 15, 2012 on our consideration of East Union 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 on pages 7 through 16 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the

Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise East Union 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 seven years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplemental 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.

March 15, 2012

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

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East Union 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 \$4,770,509 in fiscal 2010 to \$5,468,972 in fiscal 2011, while General Fund expenditures also increased from \$5,056,876 in fiscal 2010 to \$5,109,521 in fiscal 2011. This resulted in an increase in the District's General Fund balance from \$478,185 in fiscal 2010 to \$837,636 in fiscal 2011, a 75.17% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state revenue sources in fiscal 2011. The increase in expenditures was due primarily to an increase in the support services expenditures.

### **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 Union 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 Union 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 Union Community School District acts solely as an agent or custodial for the benefit of those outside of the 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 governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides detail 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.

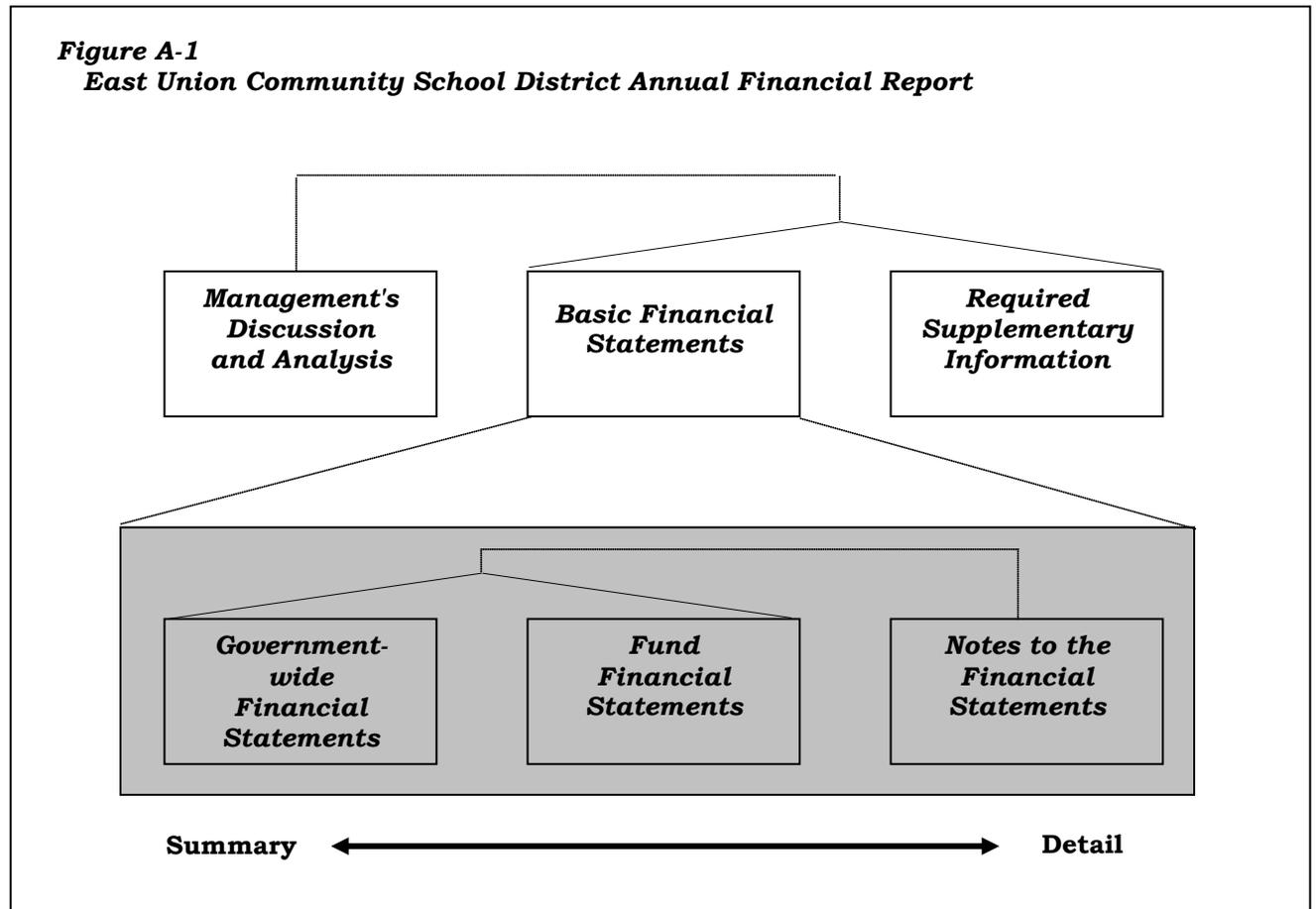


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
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>
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
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
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

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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 two 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 revenues, expenses and changes in net assets and a statement of cash flows.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 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	\$ 7,645,130	8,712,407	19,398	6,642	7,664,528	8,719,049	-12.09%
Capital assets	6,414,453	2,638,777	52,472	52,760	6,466,925	2,691,537	140.27%
Total assets	<u>14,059,583</u>	<u>11,351,184</u>	<u>71,870</u>	<u>59,402</u>	<u>14,131,453</u>	<u>11,410,586</u>	<u>23.85%</u>
Long-term obligations	5,702,122	5,860,584	4,612	161	5,706,734	5,860,745	-2.63%
Other liabilities	3,146,088	2,336,481	66,618	45,993	3,212,706	2,382,474	34.85%
Total liabilities	<u>8,848,210</u>	<u>8,197,065</u>	<u>71,230</u>	<u>46,154</u>	<u>8,919,440</u>	<u>8,243,219</u>	<u>8.20%</u>
Net assets:							
Invested in capital assets, net of related debt	2,546,907	791,164	52,472	52,760	2,599,379	843,924	208.01%
Restricted	1,803,592	1,840,952	-	-	1,803,592	1,840,952	-2.03%
Unrestricted	<u>860,874</u>	<u>522,003</u>	<u>(51,832)</u>	<u>(39,512)</u>	<u>809,042</u>	<u>482,491</u>	<u>67.68%</u>
Total net assets	<u>\$ 5,211,373</u>	<u>3,154,119</u>	<u>640</u>	<u>13,248</u>	<u>5,212,013</u>	<u>3,167,367</u>	<u>64.55%</u>

The District's combined net assets increased by 64.55% or \$2,044,646 from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$37,360 or 2.03% from the prior year. The decrease was primarily a result of the decrease in the Capital Projects Fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$326,551 or 67.68%. This increase was largely due to the increase in the General Fund unassigned fund balance.

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

	Figure A-4							
	Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
	2011	2010	2011	2010	2011	2010	2010-11	
Revenues:								
Program revenues:								
Charges for services	\$ 311,596	262,663	94,250	102,810	405,846	365,473	11.05%	
Operating grants, contributions and restricted interest	800,883	1,197,871	123,083	129,293	923,966	1,327,164	-30.38%	
Capital grants, contributions and restricted interest	1,588,340	-	-	-	1,588,340	-	100.00%	
General revenues:								
Property tax	2,017,113	1,465,074	-	-	2,017,113	1,465,074	37.68%	
Income surtax	213,320	177,546	-	-	213,320	177,546	20.15%	
Statewide sales, services and use tax	432,874	433,301	-	-	432,874	433,301	-0.10%	
Unrestricted state grants	2,454,631	1,777,782	-	-	2,454,631	1,777,782	38.07%	
Nonspecific program federal grants	51,942	-	-	-	51,942	-	100.00%	
Unrestricted investment earnings	36,151	5,350	12	61	36,163	5,411	568.32%	
Other general revenue	105,116	144,250	1,254	815	106,370	145,065	-26.67%	
Transfers	-	(15,126)	-	15,126	-	-	0.00%	
Total revenues	8,011,966	5,448,711	218,599	248,105	8,230,565	5,696,816	44.48%	
Program expenses:								
Governmental activities:								
Instructional	3,485,662	3,605,315	-	-	3,485,662	3,605,315	-3.32%	
Support services	1,912,375	1,565,430	594	1,529	1,912,969	1,566,959	22.08%	
Non-instructional programs	-	-	230,613	260,169	230,613	260,169	-11.36%	
Other expenses	556,675	462,547	-	-	556,675	462,547	20.35%	
Total expenses	5,954,712	5,633,292	231,207	261,698	6,185,919	5,894,990	4.94%	
Changes in net assets	2,057,254	(184,581)	(12,608)	(13,593)	2,044,646	(198,174)	-1131.74%	
Net assets beginning of year	3,154,119	3,338,700	13,248	26,841	3,167,367	3,365,541	-5.89%	
Net assets end of year	\$ 5,211,373	3,154,119	640	13,248	5,212,013	3,167,367	64.55%	

Property tax, grants, contributions and restricted interest and unrestricted state grants account for 85.63% of governmental activities revenue while charges for service and operation grants, contributions and restricted interest accounted for 99.42% of business type activities revenue.

The District's total revenues were approximately \$8.23 million, of which approximately \$8.01 million was for governmental activities and approximately \$0.22 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 44.48% increase in revenues and a 4.94% increase in expenses.

## Governmental Activities

Revenues for governmental activities were \$8,011,966 and expenses were \$5,954,712. The revenues increased in the governmental activities by \$2,563,255 mainly due to capital grants and increased property tax revenues received by the District during fiscal year 2011.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 3,485,662	3,605,315	-3.32%	2,622,244	2,355,637	11.32%
Support services	1,912,375	1,565,430	22.16%	284,802	1,563,897	-81.79%
Other expenses	556,675	462,547	20.35%	346,847	253,224	36.97%
<b>Totals</b>	<b>\$ 5,954,712</b>	<b>5,633,292</b>	<b>5.71%</b>	<b>3,253,893</b>	<b>4,172,758</b>	<b>-22.02%</b>

- The cost financed by users of the District's programs was \$311,596.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,389,223.
- The net cost of governmental activities was financed with \$2,017,113 in property tax, \$213,320 in income surtax, \$432,874 in statewide sales, services and use tax, \$2,454,631 in unrestricted state grants, \$51,942 in nonspecific program federal grants, \$36,151 in interest income and \$105,116 in other general revenue.

## Business Type Activities

Revenues of the District's business type activities were \$218,599 and expenses were \$231,207. 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 Union Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,351,717, down from last year's ending fund balances of \$6,242,867. The primary reason for the decrease was expenditures for various construction projects during the year ended June 30, 2011.

## Governmental Fund Highlights

- The District's General Fund balance increased from \$478,185 on June 30, 2010 to \$837,636 on June 30, 2011. The fluctuation in the District's General Fund financial position is the product of many factors. Increases in local and state funding sources revenue during the year

resulted in an increase in total revenues. An increase in support services expenditures led to an overall increase the total expenditures for the year.

- The Capital Projects Fund declined from a restated balance of \$5,082,195 at the beginning of fiscal year 2011 to \$2,821,847 at the end of fiscal year 2011. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. The decline in fund balance resulted mainly from costs associated with the District's Elementary and Playground construction projects.

### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$13,248 at June 30, 2010 to \$640 at June 30, 2011, representing a decrease of 95.17% or \$12,608.

### BUDGETARY HIGHLIGHTS

The District's revenues were \$1,183,740 more than budgeted revenues, a variance of 16.87%. The most significant variances resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At June 30, 2011, the District had invested \$6,466,925, 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 increase of 140.27% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$214,281.

	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
Land	\$ 14,205	14,205	-	-	14,205	14,205	0.00%
Construction in progress	4,205,774	491,940	-	-	4,205,774	491,940	754.94%
Buildings	1,649,981	1,730,729	-	-	1,649,981	1,730,729	-4.67%
Land improvements	343,582	94,636	-	-	343,582	94,636	263.06%
Machinery and equipment	200,911	307,267	52,472	52,760	253,383	360,027	-29.62%
<b>Total</b>	<b>\$ 6,414,453</b>	<b>2,638,777</b>	<b>52,472</b>	<b>52,760</b>	<b>6,466,925</b>	<b>2,691,537</b>	<b>140.27%</b>

The original cost of the District's capital assets was \$9,733,003. Governmental funds accounted for \$9,631,534 with the remainder of \$101,469 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress categories. The construction in progress totaled \$491,940 at June 30, 2010, compared to \$4,205,774 reported at June 30, 2011. The largest share of this increase is a due to the new elementary building project started during the current year.

### Long-Term Debt

At June 30, 2011, the District had long-term debt outstanding of \$5,706,734 in general obligation bonds, revenue bonds, lease obligations, compensated absences and OPEB liability (See Figure A-7). Additional detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$3,940,000 at June 30, 2011.

The District had outstanding revenue bonded indebtedness of \$1,595,000 at June 30, 2011.

The District had an outstanding lease obligation of \$137,592 at June 30, 2011.

The District had an outstanding loan payable in the Nutrition Fund of \$4,273 at June 30, 2011.

The District had compensated absences payable from the General Fund of \$8,816 as of June 30, 2011.

The District had total Net OPEB liability of \$21,053 at June 30, 2011.

	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
General obligation bonds	\$ 3,940,000	4,065,000	-	-	3,940,000	4,065,000	-3.08%
Revenue bonds	1,595,000	1,780,000	-	-	1,595,000	1,780,000	-10.39%
Computer lease	137,592	-	-	-	137,592	-	100.00%
Loan payable	-	-	4,273	-	4,273	-	100.00%
Compensated absences	8,816	5,745	-	-	8,816	5,745	53.46%
Net OPEB liability	20,714	9,839	339	161	21,053	10,000	110.53%
<b>Total</b>	<b>\$ 5,702,122</b>	<b>5,860,584</b>	<b>4,612</b>	<b>161</b>	<b>5,706,734</b>	<b>5,860,745</b>	<b>-2.63%</b>

### 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:

- Low allowable growth over several years and possible enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The District is looking at other financing sources to support the shortfalls from the state.

- 
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which started in fiscal year 2005.

### **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 Billie Jo Greene, Business Manager/District Board Secretary/Treasurer, East Union Community School District, 1916 High School Drive, Afton, Iowa, 50830.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 4,843,917	9,584	4,853,501
Receivables:			
Property tax:			
Delinquent	34,486	-	34,486
Succeeding year	2,102,240	-	2,102,240
Income surtax	212,692	-	212,692
Accounts	86,856	157	87,013
Due from other funds	62,435	-	62,435
Due from other governments	302,504	-	302,504
Inventories	-	9,657	9,657
Capital assets, net of accumulated depreciation	6,414,453	52,472	6,466,925
<b>Total assets</b>	<b>14,059,583</b>	<b>71,870</b>	<b>14,131,453</b>
<b>Liabilities</b>			
Accounts payable	838,557	102	838,659
Salaries and benefits payable	25,678	481	26,159
Accrued interest payable	65,367	-	65,367
Due to other funds	-	62,435	62,435
Deferred revenue:			
Succeeding year property tax	2,102,240	-	2,102,240
Other	114,246	-	114,246
Unearned revenue	-	3,600	3,600
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	135,000	-	135,000
Revenue bonds payable	195,000	-	195,000
Computer lease	43,428	-	43,428
Loan payable	-	1,429	1,429
Compensated absences	8,816	-	8,816
Portion due after one year:			
General obligation bonds payable	3,805,000	-	3,805,000
Revenue bonds payable	1,400,000	-	1,400,000
Computer lease	94,164	-	94,164
Loan payable	-	2,844	2,844
Net OPEB liability	20,714	339	21,053
<b>Total liabilities</b>	<b>8,848,210</b>	<b>71,230</b>	<b>8,919,440</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,546,907	52,472	2,599,379
Restricted for:			
Categorical funding	94,557	-	94,557
Debt service	498,009	-	498,009
Management levy purposes	82,473	-	82,473
Student activities	111,752	-	111,752
School infrastructure	957,968	-	957,968
Physical plant and equipment	58,833	-	58,833
Unrestricted	860,874	(51,832)	809,042
<b>Total net assets</b>	<b>\$ 5,211,373</b>	<b>640</b>	<b>5,212,013</b>

SEE NOTES TO FINANCIAL STATEMENTS

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions	Capital Grants, Contributions	Governmental Activities	Business Type Activities	
			and Restricted Interest	and Restricted Interest			
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 2,011,508	164,347	325,607	-	(1,521,554)	-	(1,521,554)
Special	562,970	25,916	28,248	-	(508,806)	-	(508,806)
Other	911,184	121,333	197,967	-	(591,884)	-	(591,884)
	<u>3,485,662</u>	<u>311,596</u>	<u>551,822</u>	<u>-</u>	<u>(2,622,244)</u>	<u>-</u>	<u>(2,622,244)</u>
Support services:							
Student	49,011	-	-	-	(49,011)	-	(49,011)
Instructional staff	436,282	-	32,800	-	(403,482)	-	(403,482)
Administration	576,834	-	-	-	(576,834)	-	(576,834)
Operation and maintenance of plant	469,247	-	5,785	1,588,340	1,124,878	-	1,124,878
Transportation	381,001	-	648	-	(380,353)	-	(380,353)
	<u>1,912,375</u>	<u>-</u>	<u>39,233</u>	<u>1,588,340</u>	<u>(284,802)</u>	<u>-</u>	<u>(284,802)</u>
Other expenditures:							
Long-term debt interest	245,897	-	-	-	(245,897)	-	(245,897)
AEA flowthrough	209,828	-	209,828	-	-	-	-
Depreciation(unallocated)*	100,950	-	-	-	(100,950)	-	(100,950)
	<u>556,675</u>	<u>-</u>	<u>209,828</u>	<u>-</u>	<u>(346,847)</u>	<u>-</u>	<u>(346,847)</u>
Total governmental activities	5,954,712	311,596	800,883	1,588,340	(3,253,893)	-	(3,253,893)
Business Type activities:							
Support services:							
Administration	550	-	-	-	-	(550)	(550)
Operation and maintenance of plant	44	-	-	-	-	(44)	(44)
Non-instructional programs:							
Nutrition services	230,613	94,250	123,083	-	-	(13,280)	(13,280)
Total business type activities	<u>231,207</u>	<u>94,250</u>	<u>123,083</u>	<u>-</u>	<u>-</u>	<u>(13,874)</u>	<u>(13,874)</u>
Total	\$ 6,185,919	405,846	923,966	1,588,340	(3,253,893)	(13,874)	(3,267,767)
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 1,680,575	-	1,680,575
Debt service					296,621	-	296,621
Capital outlay					39,917	-	39,917
Income surtax					213,320	-	213,320
Statewide sales, services and use tax					432,874	-	432,874
Unrestricted state grants					2,454,631	-	2,454,631
Nonspecific program federal grants					51,942	-	51,942
Unrestricted investment earnings					36,151	12	36,163
Other general revenues					105,116	1,254	106,370
Total general revenues					<u>5,311,147</u>	<u>1,266</u>	<u>5,312,413</u>
Changes in net assets					2,057,254	(12,608)	2,044,646
Net assets beginning of year					<u>3,154,119</u>	<u>13,248</u>	<u>3,167,367</u>
Net assets end of year					<u>\$ 5,211,373</u>	<u>640</u>	<u>5,212,013</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 963,418	3,179,000	492,938	208,561	4,843,917
Receivables:					
Property tax:					
Delinquent	27,107	683	5,071	1,625	34,486
Succeeding year	1,678,562	41,506	302,172	80,000	2,102,240
Income surtax	212,692	-	-	-	212,692
Accounts	77,904	6,902	-	2,050	86,856
Due from other funds	62,435	-	-	-	62,435
Due from other governments	136,541	165,963	-	-	302,504
<b>Total assets</b>	<b>\$ 3,158,659</b>	<b>3,394,054</b>	<b>800,181</b>	<b>292,236</b>	<b>7,645,130</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 290,364	530,701	-	17,492	838,557
Salaries and benefits payable	25,159	-	-	519	25,678
Deferred revenue:					
Succeeding year property tax	1,678,562	41,506	302,172	80,000	2,102,240
Income surtax	212,692	-	-	-	212,692
Other	114,246	-	-	-	114,246
Total liabilities	2,321,023	572,207	302,172	98,011	3,293,413
Fund balances:					
Restricted for:					
Categorical funding	94,557	-	-	-	94,557
Debt service	-	-	498,009	-	498,009
Management levy purposes	-	-	-	82,473	82,473
Student activities	-	-	-	111,752	111,752
Construction	-	1,805,046	-	-	1,805,046
School infrastructure	-	957,968	-	-	957,968
Physical plant and equipment	-	58,833	-	-	58,833
Unassigned	743,079	-	-	-	743,079
Total fund balances	837,636	2,821,847	498,009	194,225	4,351,717
<b>Total liabilities and fund balances</b>	<b>\$ 3,158,659</b>	<b>3,394,054</b>	<b>800,181</b>	<b>292,236</b>	<b>7,645,130</b>

SEE NOTES TO FINANCIAL STATEMENTS

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

<b>Total fund balances of governmental funds(page 20)</b>	\$ 4,351,717
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,414,453
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.	(65,367)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	212,692
Long-term liabilities, including bonds payable, leases payable, compensated absences and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,702,122)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 5,211,373</u></u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Capital Projects	Debt Service	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,769,356	472,791	296,621	95,063	2,633,831
Tuition	95,132	-	-	-	95,132
Other	373,535	740,302	427	133,115	1,247,379
State sources	2,801,323	50,917	-	-	2,852,240
Federal sources	322,034	831,874	-	-	1,153,908
Total revenues	5,361,380	2,095,884	297,048	228,178	7,982,490
Expenditures:					
Current:					
Instruction:					
Regular	1,927,247	-	-	77,085	2,004,332
Special	561,011	-	-	-	561,011
Other	783,276	-	-	127,442	910,718
	3,271,534	-	-	204,527	3,476,061
Support services:					
Student	48,741	-	-	-	48,741
Instructional staff	343,221	42,396	-	-	385,617
Administration	551,750	22,011	-	-	573,761
Operation and maintenance of plant	361,059	-	-	24,048	385,107
Transportation	323,388	-	-	6,827	330,215
	1,628,159	64,407	-	30,875	1,723,441
Other expenditures:					
Facilities acquisitions	-	4,061,215	-	-	4,061,215
Long-term debt:					
Principal	-	-	310,000	-	310,000
Interest	-	-	230,687	-	230,687
AEA flowthrough	209,828	-	-	-	209,828
	209,828	4,061,215	540,687	-	4,811,730
Total expenditures	5,109,521	4,125,622	540,687	235,402	10,011,232
Excess(deficiency) of revenues over(under) expenditures	251,859	(2,029,738)	(243,639)	(7,224)	(2,028,742)
Other financing sources(uses):					
Transfers in	-	-	260,610	-	260,610
Transfers out	-	(260,610)	-	-	(260,610)
Proceeds from lease	107,592	30,000	-	-	137,592
Total other financing sources(uses)	107,592	(230,610)	260,610	-	137,592
Net change in fund balances	359,451	(2,260,348)	16,971	(7,224)	(1,891,150)
Fund balances beginning of year, as restated	478,185	5,082,195	481,038	201,449	6,242,867
Fund balances end of year	\$ 837,636	2,821,847	498,009	194,225	4,351,717

SEE NOTES TO FINANCIAL STATEMENTS

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

Net change in fund balances - total governmental funds(page 22) \$ (1,891,150)

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

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

Expenditures for capital assets	\$ 3,982,982	
Depreciation expense	(207,306)	3,775,676

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(137,592)	
Repaid	310,000	172,408

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.

(15,210)

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

29,476

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

Compensated absences	\$ (3,071)	
Other postemployment benefits	(10,875)	(13,946)

**Changes in net assets of governmental activities(page 19) \$ 2,057,254**

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

	School Nutrition
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 9,584
Accounts receivable	157
Inventories	9,657
	19,398
Non-current assets:	
Capital assets, net of accumulated depreciation	52,472
<b>Total assets</b>	<b>71,870</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	102
Salaries and benefits payable	481
Due to other funds	62,435
Unearned revenue	3,600
	66,618
Long-term liabilities:	
Loan payable	4,273
Net OPEB liability	339
	4,612
<b>Total liabilities</b>	<b>71,230</b>
<b>Net Assets</b>	
Invested in capital assets	52,472
Unrestricted	(51,832)
<b>Total net assets</b>	<b>\$ 640</b>

SEE NOTES TO FINANCIAL STATEMENTS

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 94,250
Miscellaneous	1,254
Total operating revenues	95,504
Operating expenses:	
Support services:	
Administration:	
Other	550
Operation and maintenance of plant:	
Services	44
Total support services	594
Non-instructional programs:	
Food service operations:	
Salaries	110,059
Benefits	23,093
Supplies	89,515
Other	971
Depreciation	6,975
Total operating expenses	230,613
Total operating expenses	231,207
Operating loss	(135,703)
Non-operating revenues:	
State sources	2,043
Federal sources	121,040
Interest income	12
Total non-operating revenues	123,095
Change in net assets	(12,608)
Net assets beginning of year	13,248
Net assets end of year	\$ 640

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION 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	\$ 94,095
Cash received from miscellaneous	1,254
Cash payments to employees for services	(133,137)
Cash payments to suppliers for goods or services	(78,805)
Net cash used in operating activities	(116,593)
Cash flows from non-capital financing activities:	
Borrowings from General Fund	20,989
State grants received	2,043
Federal grants received	103,694
Net cash provided by non-capital financing activities	126,726
Cash flows from capital and related financing activities:	
Proceeds on capital debt	4,273
Purchase of capital assets	(6,687)
Net cash provided by capital and related financing activities	(2,414)
Cash flows from investing activities:	
Interest on investments	12
Net increase in cash and cash equivalents	7,731
Cash and cash equivalents at beginning of year	1,853
Cash and cash equivalents at end of year	\$ 9,584
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (135,703)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,346
Depreciation	6,975
Increase in inventories	(5,171)
Decrease in accounts receivable	146
Increase in accounts payable	100
Decrease in salaries and benefits payable	(163)
Decrease in unearned revenue	(301)
Increase in other postemployment benefits	178
Net cash used in operating activities	\$ (116,593)

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

During the year ended June 30, 2011, the District received \$17,346 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS

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

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

The East Union Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Afton, Iowa, and the predominate agricultural territory in Union, Madison, Ringgold, and Clarke 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 Union 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 Union 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 Union, Madison, Ringgold, and Clarke County Assessors' Conference Board.

**B. Basis of Presentation**

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

The Statement of Net Assets presents the District's Non-fiduciary 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 asset* 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 that 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 non-major governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's long-term debt.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, 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, intangibles and machinery and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	2 or more years
Machinery and equipment	5-12 years

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

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 on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. 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 State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$320,931 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) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 62,435

Nutrition Fund owes the General Fund for salaries and benefits paid by the General Fund. The balance will be repaid by June 30, 2012.

**(4) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 260,610

The Capital Projects Fund transferred monies to the Debt Service Fund for principal and interest payments on the District's revenue bonded indebtedness.

**(5) 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
<b>Business type activities:</b>				
Machinery and equipment	\$ 94,782	6,687	-	101,469
Less accumulated depreciation	42,022	6,975	-	48,997
Business type activities capital assets, net	\$ 52,760	(288)	-	52,472

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 14,205	-	-	14,205
Construction in progress	491,940	3,982,982	269,148	4,205,774
Total capital assets not being depreciated	<u>506,145</u>	<u>3,982,982</u>	<u>269,148</u>	<u>4,219,979</u>
Capital assets being depreciated:				
Buildings	3,842,185	-	-	3,842,185
Land improvements	200,897	269,148	-	470,045
Machinery and equipment	1,117,537	-	18,212	1,099,325
Total capital assets being depreciated	<u>5,160,619</u>	<u>269,148</u>	<u>18,212</u>	<u>5,411,555</u>
Less accumulated depreciation for:				
Buildings	2,111,456	80,748	-	2,192,204
Land improvements	106,261	20,202	-	126,463
Machinery and equipment	810,270	106,356	18,212	898,414
Total accumulated depreciation	<u>3,027,987</u>	<u>207,306</u>	<u>18,212</u>	<u>3,217,081</u>
Total capital assets being depreciated, net	<u>2,132,632</u>	<u>61,842</u>	<u>-</u>	<u>2,194,474</u>
Governmental activities capital assets, net	<u>\$ 2,638,777</u>	<u>4,044,824</u>	<u>269,148</u>	<u>6,414,453</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instructional:		
Regular		\$ 2,029
Support services:		
Instructional staff		50,501
Operation and maintenance of plant operations		4,641
Transportation		49,185
		<u>106,356</u>
Unallocated depreciation		<u>100,950</u>
Total governmental activities depreciation expense		<u>\$ 207,306</u>
Business type activities:		
Food services		<u>\$ 6,975</u>

**(6) 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
<b>Governmental activities:</b>					
General obligation bonds	\$ 4,065,000	-	125,000	3,940,000	135,000
Revenue bonds	1,780,000	-	185,000	1,595,000	195,000
Computer lease	-	137,592	-	137,592	43,428
Compensated absences	5,745	8,816	5,745	8,816	8,816
Net OPEB liability	9,839	10,875	-	20,714	-
<b>Total</b>	<b>\$ 5,860,584</b>	<b>157,283</b>	<b>315,745</b>	<b>5,702,122</b>	<b>382,244</b>
<b>Business type activities:</b>					
Net OPEB liability	\$ 161	178	-	339	-
Loan payable	-	4,273	-	4,273	1,429
<b>Total</b>	<b>\$ 161</b>	<b>4,451</b>	<b>-</b>	<b>4,612</b>	<b>1,429</b>

### General Obligation Bonds

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

Year Ending June 30,	Interest Rate	Bond issue May 1, 2010		
		Principal	Interest	Total
2012	4.00 %	\$ 135,000	166,422	301,422
2013	4.00	140,000	161,023	301,023
2014	4.00	145,000	155,422	300,422
2015	4.00	150,000	149,623	299,623
2016	4.00	160,000	143,622	303,622
2017-2021	4.00	915,000	616,313	1,531,313
2022-2026	4.00-4.30	1,155,000	414,292	1,569,292
2027-2030	4.50-4.75	1,140,000	136,960	1,276,960
<b>Total</b>		<b>\$ 3,940,000</b>	<b>1,943,677</b>	<b>5,883,677</b>

### Revenue Bonds

Details of the District's June 30, 2011 revenue bonds indebtedness is as follows:

Year Ending June 30,	Bond issue January 1, 2004		Bond issue February 25, 2010			Total			
	Interest Rates	Principal	Interest	Rates	Principal	Interest	Principal	Interest	Total
2012	3.65 %	\$ 195,000	11,158	2.00 %	-	46,650	195,000	57,808	252,808
2013	3.80	200,000	3,800	2.00	-	46,650	200,000	50,450	250,450
2014	-	-	-	2.00	50,000	46,150	50,000	46,150	96,150
2015	-	-	-	2.00	50,000	45,150	50,000	45,150	95,150
2016	-	-	-	2.00	50,000	44,150	50,000	44,150	94,150
2017-2021	-	-	-	3.00-3.75	250,000	198,625	250,000	198,625	448,625
2022-2026	-	-	-	4.00-4.40	400,000	137,825	400,000	137,825	537,825
2027-2030	-	-	-	4.50-4.75	400,000	37,525	400,000	37,525	437,525
<b>Total</b>		<b>\$ 395,000</b>	<b>14,958</b>		<b>1,200,000</b>	<b>602,725</b>	<b>1,595,000</b>	<b>617,683</b>	<b>2,212,683</b>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,500,000 bonds issued on January 1, 2004 and \$1,200,000 issued on February 25, 2010. The 2004 bonds were issued for the purposes of the construction of a new high school building. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2013. The 2010 bonds were issued for the purpose of construction of a new elementary building. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitations of the District. Annual principal and interest payments on the bonds are expected to require 58.40% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$2,212,683. For the current year, principal and interest was paid on the bonds of \$242,515, and the statewide sales, services and use tax revenue was \$432,872.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$269,017 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Computer Lease

The District entered into a computer lease during the year ended June 30, 2011. The first \$10,000 each year will be paid from the Capital Projects: Statewide Sales, Services and Use Tax Fund with the remainder coming from the General Fund.

Year Ending June 30,	Interest Rate	Lease issue June 14, 2010		
		Principal	Interest	Total
2012	4.00	% \$ 43,428	7,577	51,005
2013	4.00	45,820	5,186	51,006
2014	4.00	48,344	2,662	51,006
		<u>\$ 137,592</u>	<u>15,425</u>	<u>153,017</u>

Loan Payable

During the year ended June 30, 2011, the District entered into a contract for a vending machine. Details of the obligation, which is payable from the School Nutrition Fund are as follows:

Year Ending June 30,	Interest Rate	Loan Payable		
		Principal	Interest	Total
2012	22.92 %	\$ 1,429	979	2,408
2013	22.92	1,756	652	2,408
2014	22.92	1,088	250	1,338
		<u>\$ 4,273</u>	<u>1,881</u>	<u>6,154</u>

**(7) 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 contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$202,137, \$204,457 and \$194,357, respectively, equal to the required contributions for each year.

**(8) Risk Management**

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

**(9) 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 95 active and 3 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 results 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 any unfunded actuarial liabilities over a period not to exceed 30 years.

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

Annual required contribution	\$ 30,000
Interest on net OPEB obligation	450
Adjustment to annual required contribution	(397)
Annual OPEB cost	<u>30,053</u>
Contributions made	<u>(19,000)</u>
Increase in net OPEB obligation	11,053
Net OPEB obligation beginning of year	10,000
Net OPEB obligation end of year	<u><u>\$ 21,053</u></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 \$19,000 to the medical plan. Plan members eligible for benefits contributed \$29,000, or 60.42% 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	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 30,000	66.7%	\$ 10,000
2011	30,053	63.2%	21,053

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 \$252,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$252,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,385,139 and the ratio of the UAAL to covered payroll was 10.57%.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress,

presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

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

Projected claim costs of the medical plan are \$812 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$209,828 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.

**(11) Deficit Net Assets**

The Nutrition Fund had a deficit unrestricted net assets at June 30, 2011 of \$51,832.

**(12) Construction Commitment**

The District has entered into contracts totaling \$7,156,915 for construction of a new elementary building. As of June 30, 2011, costs of \$4,161,856 had been incurred against the contracts. The balance of \$2,995,059 remaining at June 30, 2011 will be paid as work on the project progresses.

**(13) Categorical Funding**

The District's restricted fund balances for categorical funding at June 30, 2011 is comprised of the following programs:

Project	Amount
Limited English Proficient	\$ 5,198
Gifted and Talented Programs	45,637
Four-year-old Preschool State Aid	29,963
Beginning Teacher Mentoring and Induction Program	1,454
Teacher Salary Supplement	7,463
Professional Development for Model Core Curriculum	3,894
Professional Development	638
Market Factor Incentives	310
Total	<u>\$ 94,557</u>

**(14) 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 reclassification is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously stated	\$ 5,047,474	34,721
Change in fund type classification per implementation of GASB Statement No. 54	34,721	(34,721)
Balances July 1, 2010, as restated	<u>\$ 5,082,195</u>	<u>-</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST UNION 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 Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,976,342	95,516	4,071,858	3,259,224	3,259,224	812,634
State sources	2,852,240	2,043	2,854,283	3,082,625	3,082,625	(228,342)
Federal sources	1,153,908	121,040	1,274,948	675,500	675,500	599,448
Total revenues	<u>7,982,490</u>	<u>218,599</u>	<u>8,201,089</u>	<u>7,017,349</u>	<u>7,017,349</u>	<u>1,183,740</u>
Expenditures/Expenses:						
Instruction	3,476,061	-	3,476,061	3,955,848	3,955,848	479,787
Support services	1,723,441	594	1,724,035	2,214,986	2,214,986	490,951
Non-instructional programs	-	230,613	230,613	292,641	292,641	62,028
Other expenditures	4,811,730	-	4,811,730	6,444,878	6,444,878	1,633,148
Total expenditures/expenses	<u>10,011,232</u>	<u>231,207</u>	<u>10,242,439</u>	<u>12,908,353</u>	<u>12,908,353</u>	<u>2,665,914</u>
Deficiency of revenues under expenditures/expenses	(2,028,742)	(12,608)	(2,041,350)	(5,891,004)	(5,891,004)	3,849,654
Other financing sources, net	137,592	-	137,592	-	-	137,592
Deficiency of revenues and other financing sources under expenditures/expenses	(1,891,150)	(12,608)	(1,903,758)	(5,891,004)	(5,891,004)	3,987,246
Balances beginning of year	6,242,867	13,248	6,256,115	5,891,004	5,891,004	365,111
Balances end of year	<u>\$ 4,351,717</u>	<u>640</u>	<u>4,352,357</u>	<u>-</u>	<u>-</u>	<u>4,352,357</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION 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 Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 252,000	252,000	0.0%	\$ 2,280,700	11.05%
2011	July 1, 2009	-	252,000	252,000	0.0%	2,385,139	10.57%

See Note 9 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 UNION COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 96,932	111,629	208,561
Receivables:			
Property tax:			
Delinquent	1,625	-	1,625
Succeeding year	80,000	-	80,000
Accounts	-	2,050	2,050
<b>Total assets</b>	<b>\$ 178,557</b>	<b>113,679</b>	<b>292,236</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 16,084	1,408	17,492
Salaries and benefits payable	-	519	519
Deferred revenue:			
Succeeding year property tax	80,000	-	80,000
Total liabilities	96,084	1,927	98,011
Fund balances:			
Restricted for:			
Management levy purposes	82,473	-	82,473
Student activities	-	111,752	111,752
Total fund balances	82,473	111,752	194,225
<b>Total liabilities and fund balances</b>	<b>\$ 178,557</b>	<b>113,679</b>	<b>292,236</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 95,063	-	95,063
Other	7,767	125,348	133,115
Total revenues	<u>102,830</u>	<u>125,348</u>	<u>228,178</u>
Expenditures:			
Current:			
Instruction:			
Regular	77,085	-	77,085
Other	-	127,442	127,442
Support services:			
Operation and maintenance of plant	24,048	-	24,048
Transportation	6,827	-	6,827
Total expenditures	<u>107,960</u>	<u>127,442</u>	<u>235,402</u>
Net change in fund balances	(5,130)	(2,094)	(7,224)
Fund balances beginning of year, as restated	<u>87,603</u>	<u>113,846</u>	<u>201,449</u>
Fund balances end of year	<u>\$ 82,473</u>	<u>111,752</u>	<u>194,225</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS ACCOUNTS  
 JUNE 30, 2011

	Capital Projects				
	Statewide Sales, Services and Use Tax	Elementary Project	Playground Project	Physical Plant and Equipment Levy	Total
<b>Assets</b>					
Cash and pooled investments	\$ 878,032	2,231,351	11,467	58,150	3,179,000
Recivables:					
Property tax:					
Delinquent	-	-	-	683	683
Succeeding year	-	-	-	41,506	41,506
Accounts	6,902	-	-	-	6,902
Due from other governments	81,450	84,513	-	-	165,963
<b>Total assets</b>	<b>\$ 966,384</b>	<b>2,315,864</b>	<b>11,467</b>	<b>100,339</b>	<b>3,394,054</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 8,416	522,285	-	-	530,701
Deferred revenue:					
Succeeding year property tax	-	-	-	41,506	41,506
Total liabilities	8,416	522,285	-	41,506	572,207
Fund balances:					
Restricted for:					
Construction	-	1,793,579	11,467	-	1,805,046
School infrastructure	957,968	-	-	-	957,968
Physical plant and equipment	-	-	-	58,833	58,833
Total fund balances	957,968	1,793,579	11,467	58,833	2,821,847
<b>Total liabilities and fund balances</b>	<b>\$ 966,384</b>	<b>2,315,864</b>	<b>11,467</b>	<b>100,339</b>	<b>3,394,054</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Capital Projects				
	Statewide Sales, Services and Use Tax	Elementary Project	Playground Project	Physical Plant and Equipment Levy	Total
Revenues:					
Local sources:					
Local tax	\$ 432,874	-	-	39,917	472,791
Other	705,663	29,090	5,549	-	740,302
State sources	-	50,917	-	-	50,917
Federal sources	-	831,874	-	-	831,874
Total revenues	<u>1,138,537</u>	<u>911,881</u>	<u>5,549</u>	<u>39,917</u>	<u>2,095,884</u>
Expenditures:					
Support Services:					
Instructional staff	42,396	-	-	-	42,396
Administration	22,011	-	-	-	22,011
Other expenditures:					
Facilities acquisitions	935,639	3,109,771	-	15,805	4,061,215
Total expenditures	<u>1,000,046</u>	<u>3,109,771</u>	<u>-</u>	<u>15,805</u>	<u>4,125,622</u>
Excess(deficiency) of revenues over(under) expenditures	138,491	(2,197,890)	5,549	24,112	(2,029,738)
Other financing sources(uses):					
Transfers out	(260,610)	-	-	-	(260,610)
Proceeds from lease	30,000	-	-	-	30,000
Total other financing sources(uses)	<u>(230,610)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(230,610)</u>
Net change in fund balances	(92,119)	(2,197,890)	5,549	24,112	(2,260,348)
Fund balances beginning of year, as restated	<u>1,050,087</u>	<u>3,991,469</u>	<u>5,918</u>	<u>34,721</u>	<u>5,082,195</u>
Fund balances end of year	<u>\$ 957,968</u>	<u>1,793,579</u>	<u>11,467</u>	<u>58,833</u>	<u>2,821,847</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION 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	Balance End of Year
MS boys basketball	\$ 875	495	277	1,093
MS football	911	125	589	447
MS baseball	489	125	-	614
MS boys track	537	125	-	662
MS wrestling	699	125	-	824
MS girls basketball	1,081	125	55	1,151
MS volleyball	536	125	52	609
MS softball	1,077	245	133	1,189
MS girls track	511	125	5	631
MS student council	5,342	348	651	5,039
Drama	3,952	773	1,231	3,494
Vocal music	13,840	4,908	5,240	13,508
Instrumental music	2,403	3,484	3,283	2,604
HS golf	1,918	300	95	2,123
HS boys basketball	1,389	400	47	1,742
HS football	1,869	3,060	3,090	1,839
HS baseball	749	1,379	1,642	486
HS boys track	758	838	601	995
Weight room	1,145	550	307	1,388
HS wrestling	822	1,266	565	1,523
HS girls basketball	2,539	1,746	929	3,356
HS volleyball	1,848	8,227	7,631	2,444
HS softball	1,087	1,731	236	2,582
HS girls track	2,011	2,696	3,649	1,058
General athletics	38,789	47,926	45,065	41,650
Cheerleaders	2,165	-	2,165	-
Class of 2011	7,115	5,844	12,959	-
Class of 2012	30	12,105	11,649	486
Class of 2013	228	2,239	412	2,055
Concessions	2,119	1,142	1,634	1,627
FFA	4,846	7,138	8,500	3,484
FCCLA	452	2,285	2,482	255
Now account interest	-	45	45	-
National honor society	39	-	-	39
Science club	2,031	626	594	2,063
Spanish club	1,319	1,136	262	2,193
Student council	451	2,792	2,947	296
Vocational agriculture	175	-	20	155
2010 yearbook	5,699	135	5,834	-
2011 yearbook	-	8,614	2,566	6,048
Total	\$ 113,846	125,348	127,442	111,752

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION 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	\$ 2,633,831	2,094,554	1,987,464	1,935,751	2,188,764	2,138,771	1,904,633	1,802,600
Tuition	95,132	117,889	128,785	94,981	64,103	60,448	45,634	62,243
Other	1,247,379	344,129	342,044	443,423	577,225	530,708	461,352	426,612
State sources	2,852,240	2,370,396	2,776,255	2,852,537	2,497,099	2,258,608	2,189,660	2,134,366
Federal sources	1,153,908	555,502	294,287	317,361	356,786	395,753	660,075	593,982
<b>Total</b>	<b>\$ 7,982,490</b>	<b>5,482,470</b>	<b>5,528,835</b>	<b>5,644,053</b>	<b>5,683,977</b>	<b>5,384,288</b>	<b>5,261,354</b>	<b>5,019,803</b>
Expenditures:								
Instruction:								
Regular	\$ 2,004,332	1,897,660	2,420,010	2,188,154	1,957,053	1,861,322	1,694,655	1,660,307
Special	561,011	609,348	1,055,656	641,748	636,887	552,802	453,198	1,111,379
Other	910,718	1,089,427	346,367	750,655	733,997	793,753	1,063,047	304,524
Support services:								
Student	48,741	70,138	66,610	85,589	72,179	68,461	66,868	102,410
Instructional staff	385,617	139,091	257,576	156,977	213,212	163,014	99,174	84,091
Administration	573,761	606,330	533,499	513,764	435,934	431,359	386,224	419,226
Operation and maintenance of plant	385,107	379,495	396,027	455,939	371,620	355,242	331,774	321,013
Transportation	330,215	343,645	296,975	492,979	289,201	314,779	245,561	260,617
Other expenditures:								
Facilities acquisitions	4,061,215	351,138	271,535	552,245	153,407	206,641	480,552	979,330
Long-term debt:								
Principal	310,000	180,000	170,000	165,000	155,000	145,000	105,000	-
Interest	230,687	23,843	30,642	34,578	41,838	47,238	51,738	560
AEA flow-through	209,828	202,854	185,155	178,972	163,035	153,606	153,203	155,177
<b>Total</b>	<b>\$ 10,011,232</b>	<b>5,892,969</b>	<b>6,030,052</b>	<b>6,216,600</b>	<b>5,223,363</b>	<b>5,093,217</b>	<b>5,130,994</b>	<b>5,398,634</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Grantor/Program	CFDA Number	Grant Number	Expendi- tures
Direct:			
U.S. Department of Education Rural Education Achievement Program	84.358	FY11	\$ 22,847
U.S. Department of Human Services Child Care and Development Block Grant	93.575	FY10	14,695
Child Care and Development Block Grant	93.575	FY11	26,544
			<u>41,239</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY11	18,209
National School Lunch Program	10.555	FY11	102,831 *
			<u>121,040</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY10	2,401
Title I Grants to Local Educational Agencies	84.010	FY11	103,330
			<u>105,731 **</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	32,800 **
Career and Technical Education - Basic Grants to States	84.048	FY11	5,819
Fund for the Improvement of Education	84.215	FY11	450,000
Improving Teacher Quality State Grants	84.367	FY11	31,151
Grants for State Assessment and Related Activities	84.369	FY11	2,257
State Fiscal Stabilization Fund Cluster:			
ARRA - State Fiscal Stabilization Fund(SFSF) - Education State Grants, Recovery Act	84.394	FY11	27,454
ARRA - State Fiscal Stabilization Fund(SFSF) - Government Services, Recovery Act	84.397	FY11	24,488
			<u>51,942</u>
Area Education Agency:			
Special Education - Grants to States	84.027	FY11	28,248
U.S. Department of Homeland Security:			
Hazard Mitigation Grant	97.039	FY11	381,874
Total			<u>\$ 1,274,948</u>

\* - Includes \$17,346 of non-cash awards.

\*\* - Total for Title I, Part A Cluster is \$138,531.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

**Certified Public Accountants**

**(a professional corporation)**

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

**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 Union 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 Union Community School District 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 March 15, 2012. 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 Union Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of East Union Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Union Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Union 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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of East Union 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.

March 15, 2012

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

**Certified Public Accountants**

**(a professional corporation)**

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

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Independent Auditor's Report on 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 the  
East Union Community School District:

Compliance

We have audited East Union 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 Union Community School District's major federal programs for the year ended June 30, 2011. East Union 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 Union Community School District's management. Our responsibility is to express an opinion on East Union 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 Union 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 Union Community School District's compliance with those requirements.

In our opinion, East Union 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 Union 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 Union 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 Union 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 Union 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 Union 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 Union Community School District and other parties to whom East Union 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.

March 15, 2012

EAST UNION 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 non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the 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 are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.215 - Fund for the Improvement of Education.
  - CFDA Number 97.039 - Hazard Mitigation Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Union Community School District did not qualify as a low-risk auditee.

EAST UNION 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 - The District will investigate alternatives and implement if possible.

Conclusion - Response accepted.

EAST UNION 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 84.215: Fund for the Improvement of Education  
Federal Award Year: 2011  
U.S. Department of Education  
Passed through the Iowa Department of Education

CFDA Number 97.039: Hazard Mitigation Grant  
Federal Award Year: 2011  
U.S. Department of Homeland Security

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 - The District will investigate alternatives and implement if possible.

Conclusion - Response accepted.

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

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

IV-A-11 Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed budgeted amounts in any of the functional areas.

IV-B-11 Questionable Disbursements - We noted during our audit that the District gave cash to a student as a reward for being the top seller in a fund raiser. Cash or cash cards/gift certificates do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should refrain from giving prizes to individual students as performance incentives, for being top sellers in fund raisers or for good behavior. Additionally, the District should refrain from giving cash to students.

Response - The District will refrain from cash/gift card prizes to individual students.

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 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 variances in the basic enrollment data certified to the Department of Education. The total number of students certified was understated by 7.2 students.

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

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-11 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 1,050,087
Revenues:		
Sales tax revenues	\$ 432,874	
Other local revenues	705,663	
Sale of long-term debt	30,000	1,168,537
		<u>2,218,624</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 934,889	
Equipment	42,396	
Other	22,761	
Transfers to other funds:		
Debt service fund	260,610	1,260,656
		<u>1,260,656</u>
Ending Balance		<u>\$ 957,968</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-11 Financial Condition - The District had a deficit unrestricted net assets balance of \$51,832 in the Nutrition Fund.

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

Response - 1) In accordance with the requirements from the State Nutrition Department, we will need to continue to gradually raise breakfast and lunch prices to the point that we ensure that prices are covering our production costs.  
 2) The Food Service Director will be analyzing the number of staff members currently employed, with a plan to reduce employee time.  
 3) We have been attributing a portion of two secretaries, one associate, and some custodial time, for work associated with breakfast and lunch, to the Nutrition Fund. As of July 1, 2011, we will instead be moving these expenses to the General Fund.

Conclusion - Response accepted.

IV-N-11 Appropriate Signatures- We noted during our audit that the District entered into a contract with a company for a vending machine and that the contract was not signed by the Board President. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - EU Food Service Department was unaware that the contract for a vending machine needed to be signed by the Board President. All future contracts entered into by the Food Service Department on behalf of the school district will be presented for signature by the Board President.

Conclusion - Response accepted.

IV-O-11 Excessive Interest Rates - We noted during our audit that the District entered into a lease-purchase agreement with The Witten Group Inc. to acquire a vending machine in the Nutrition Fund and the interest rate, though not stated, calculates as a rate of 22.92%. This rate appears to be in violation of Code of Iowa Chapter 535.2 that deals with usury rates.

Recommendation - As previously noted in IV-N-11, the contract was not authorized nor approved by the Board and the interest rate appears to violate Chapter 535.2 of the Code of Iowa. The District should consult with legal counsel to determine the most appropriate action for the District.

Response - The District will seek legal counsel on the most appropriate direction for the District.

Conclusion - Response accepted.