

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Martensdale-St. Marys Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Nicole Bunch	President	2011
David Schutt	Vice President	2013
Scott Anderson	Board Member	2011
Wade Gibson	Board Member	2013
Amy Harper	Board Member	2013
<b>School Officials</b>		
Jim Verlengia	Superintendent (Interim, resigned October 2010)	2011
Bob Newsum	Superintendent (Interim, appointed November 2010)	2011
Jill Gavin	District Secretary/Treasurer and Business Manager	2011
Ahlers & Cooney	Attorney	2011

Martensdale-St. Marys Community School District

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Martensdale-St. Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District, Martensdale, Iowa as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 6, 2012 on our consideration of the Martensdale-St. Marys Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 44 through 46 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Martensdale-St. Marys Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

February 6, 2012

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

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Martensdale-St. Marys 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 \$5,429,393 in fiscal 2010 to \$5,744,366 in fiscal 2011, while General Fund expenditures decreased from \$5,235,580 in fiscal 2010 to \$5,001,755 in fiscal 2011. The District's General Fund balance increased from \$601,067 in fiscal 2010 to \$1,343,678 in fiscal 2011, a 123.55% increase from the prior year.
- The increase in General Fund revenues was largely attributable to increases in local tax and state sources in fiscal 2011. The decrease in expenditures was due primarily to reduction of salary and benefits expenses.
- As of June 30, 2011 the District's solvency ratio was 20.62% for the year ended June 30, 2011 as compared to 8.80% for the year ended June 30, 2010.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Martensdale-St. Marys 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 Martensdale-St. Marys 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 Martensdale-St. Marys Community School District acts solely as an agent or custodian 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.

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

**Figure A-1**  
**Martensdale-St. Marys Community School District Annual Financial Report**

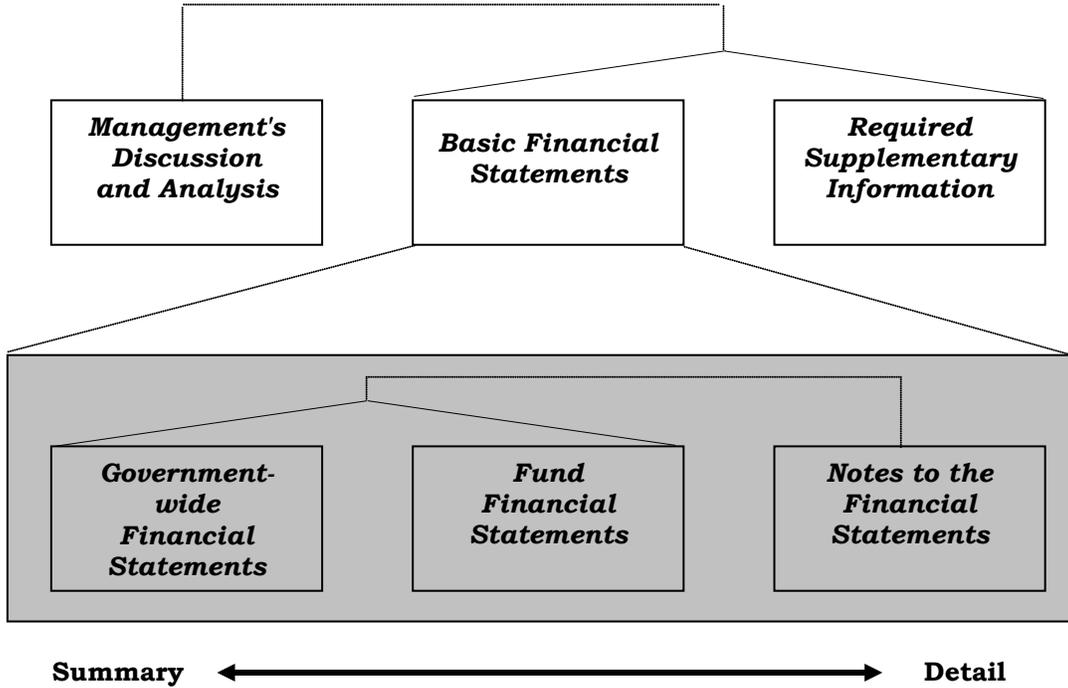


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **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.

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Funds and the Capital Projects 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 three Enterprise Funds, the School Nutrition Fund, the Day Care Fund and the Pre-kindergarten Fund.

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3 Condensed Statement of Net Assets								
	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	\$ 5,662,575	4,597,775	81,421	47,620	5,743,996	4,645,395	23.65%	
Capital assets	7,175,636	7,343,853	32,891	38,715	7,208,527	7,382,568	-2.36%	
Total assets	<u>12,838,211</u>	<u>11,941,628</u>	<u>114,312</u>	<u>86,335</u>	<u>12,952,523</u>	<u>12,027,963</u>	<u>7.69%</u>	
Long-term liabilities	6,010,135	5,997,013	-	-	6,010,135	5,997,013	0.22%	
Other liabilities	3,092,499	2,884,003	6,368	5,903	3,098,867	2,889,906	7.23%	
Total liabilities	<u>9,102,634</u>	<u>8,881,016</u>	<u>6,368</u>	<u>5,903</u>	<u>9,109,002</u>	<u>8,886,919</u>	<u>2.50%</u>	
Net assets:								
Invested in capital assets, net of related debt	1,430,636	1,473,853	32,891	38,715	1,463,527	1,512,568	-3.24%	
Restricted	1,271,163	1,036,284	-	-	1,271,163	1,036,284	22.67%	
Unrestricted	1,033,778	550,475	75,053	41,717	1,108,831	592,192	87.24%	
Total net assets	<u>\$ 3,735,577</u>	<u>3,060,612</u>	<u>107,944</u>	<u>80,432</u>	<u>3,843,521</u>	<u>3,141,044</u>	<u>22.36%</u>	

The District's combined net assets increased by 22.36%, or \$702,477, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$234,879 or 22.67% from the prior year. Increases to the fund balances of the Capital Projects: Statewide Sales, Services and Use Tax Fund and Capital Projects: Physical Plant and Equipment Levy Fund along with increased Categorical Funding carryovers are the main reasons behind the increase.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$516,639 or 87.24% due in part to the improvement in General Fund unassigned fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 as compared to the year ended 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 and transfers:							
Program revenues:							
Charges for services	\$ 779,049	935,058	210,322	224,373	989,371	1,159,431	-14.67%
Operating grants, contributions, and restricted interest	502,373	995,671	93,530	95,960	595,903	1,091,631	-45.41%
General revenues:							
Property tax	2,176,218	1,865,051	-	-	2,176,218	1,865,051	16.68%
Income surtax	197,733	218,715	-	-	197,733	218,715	-9.59%
Statewide sales, services and use tax	360,195	309,375	-	-	360,195	309,375	16.43%
Unrestricted state grants	2,474,459	1,855,512	-	-	2,474,459	1,855,512	33.36%
Nonspecific program federal grants	90,485	-	-	-	90,485	-	100.00%
Unrestricted interest earnings	17,712	25,156	-	-	17,712	25,156	-29.59%
Other general revenue	72,698	58,982	-	-	72,698	58,982	23.25%
Transfers	-	(24,162)	-	24,162	-	-	0.00%
Total revenues and transfers	<u>6,670,922</u>	<u>6,239,358</u>	<u>303,852</u>	<u>344,495</u>	<u>6,974,774</u>	<u>6,583,853</u>	<u>5.94%</u>
Program expenses:							
Governmental activities:							
Instruction	3,811,533	3,820,456	-	49,886	3,811,533	3,870,342	-1.52%
Support services	1,489,081	1,690,579	1,733	-	1,490,814	1,690,579	-11.82%
Non-instructional programs	-	-	274,607	257,796	274,607	257,796	6.52%
Other expenses	695,343	878,211	-	-	695,343	878,211	-20.82%
Total expenses	<u>5,995,957</u>	<u>6,389,246</u>	<u>276,340</u>	<u>307,682</u>	<u>6,272,297</u>	<u>6,696,928</u>	<u>-6.34%</u>
Change in net assets	674,965	(149,888)	27,512	36,813	702,477	(113,075)	-721.25%
Net assets beginning of year, as restated	<u>3,060,612</u>	<u>3,210,500</u>	<u>80,432</u>	<u>43,619</u>	<u>3,141,044</u>	<u>3,254,119</u>	<u>-3.47%</u>
Net assets end of year	<u>\$ 3,735,577</u>	<u>3,060,612</u>	<u>107,944</u>	<u>80,432</u>	<u>3,843,521</u>	<u>3,141,044</u>	<u>22.36%</u>

Property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 78.08% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100% of the revenue from business type activities.

The District's total revenues were approximately \$6.97 million, of which approximately \$6.67 million was for governmental activities and approximately \$0.30 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.94% increase in revenues and a 6.34% decrease in expenses. Property tax revenue increased \$311,167 and unrestricted state grants increased \$618,947 to fund District expenditures. The decrease in expenses was related to reduced spending in the support services and other expenditures functional areas.

### Governmental Activities

Revenues for governmental activities were \$6,670,922 and expenses were \$5,995,957 for the year ended June 30, 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.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 3,811,533	3,820,456	-0.23%	2,753,813	2,097,537	31.29%
Support services	1,489,081	1,690,579	-11.92%	1,470,309	1,686,084	-12.80%
Other expenses	695,343	878,211	-20.82%	490,413	674,896	-27.34%
Total	<u>\$ 5,995,957</u>	<u>6,389,246</u>	<u>-6.16%</u>	<u>4,714,535</u>	<u>4,458,517</u>	<u>5.74%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$779,049.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$502,373.
- The net cost of governmental activities was financed with \$2,176,218 in property tax, \$197,733 in income surtax, \$360,195 in statewide sales, services and use tax, \$2,474,459 in unrestricted state grants, \$90,485 in nonspecific program federal grants, \$17,712 in interest income, and \$72,698 in other general revenue.

### **Business Type Activities**

Revenues of the District's business type activities were \$303,852 and expenses were \$276,340. The District's business type activities include the School Nutrition Fund and Day Care Fund. Revenues of these activities were comprised of charges for service and federal and state reimbursements.

### **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,470,265, above last year's ending fund balances of \$1,541,484. This increase was mainly the result of the improved fund balance in the General Fund.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the result of many factors. The General Fund balance increased from \$601,067 to \$1,343,678, due in part to increased revenues from local and state sources combined with a reduction in salaries and benefits expenses.
- The Capital Project Accounts balance increased from a restated balance of \$393,794 at the beginning of fiscal year 2011 to \$493,111 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 balance increased in part due to the decrease in facilities acquisitions expenditures. The Capital Projects: Statewide Sales, Services and Use Tax Fund revenues increased \$39,570

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and expenses decreased \$3,402,917 when compared to the previous year. The Capital Projects: Physical Plant and Equipment Levy Fund revenues increased \$22,793 and expenses decreased \$12,359 when compared to the previous year.

- The Debt Service Fund balance improved from \$454,264 to \$556,857 due to increased revenues from local sources.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$76,910 at June 30, 2010 to \$78,891 at June 30, 2011, representing an increase of 2.58%. The Day Care Fund net assets increased from \$3,522 at June 30, 2010 to \$29,053 at June 30, 2011, representing an increase of 724.90%.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Martensdale-St. Marys Community School District amended its budget one time to reflect additional expenditures associated with expenditures in all functions.

The District's revenues were \$48,516 more than budgeted revenues, a variance of 0.70%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

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

#### **Capital Assets**

At June 30, 2011, the District had invested \$7,208,527, 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) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$225,903.

The original cost of the District's capital assets was \$9,907,060. Governmental funds account for \$9,753,087 with the remainder of \$153,973 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$63,501 at June 30, 2010, compared to \$76,379 reported at June 30, 2011. This increase is a result of various improvements to District grounds.

Figure A-6  
Capital Assets, Net of Depreciation

	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	\$ 431,172	431,172	-	-	431,172	431,172	0.00%
Land improvements	76,379	63,501	-	-	76,379	63,501	20.28%
Buildings and improvements	6,533,995	6,696,857	-	-	6,533,995	6,696,857	-2.43%
Machinery and equipment	134,090	152,323	32,891	38,715	166,981	191,038	-12.59%
Total	\$ 7,175,636	7,343,853	32,891	38,715	7,208,527	7,382,568	-2.36%

### Long-Term Debt

At June 30, 2011, the District had \$6,010,135 in total long-term debt outstanding. This represents an increase of 0.22% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,990,000 at June 30, 2011.

The District had total outstanding revenue bonds payable of \$3,755,000 at June 30, 2011.

The District had total outstanding early retirement from the Management Levy Fund of \$75,503 at June 30, 2011.

The District had a Net OPEB liability of \$189,632 at June 30, 2011.

Figure A-7  
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2011	2010	2010-11
General Obligation Bonds	\$ 1,990,000	2,115,000	-5.91%
Revenue Bonds	3,755,000	3,755,000	0.00%
Post Employment Benefits	-	678	-100.00%
Early Retirement	75,503	27,335	176.21%
Net OPEB liability	189,632	99,000	91.55%
Total	\$ 6,010,135	5,997,013	0.22%

### 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:

- MSTM has experienced declining growth, which has not allowed for additional dollars to fund programs. Student growth continues to present many challenges for the district.
- Although we are unsure of unemployment numbers for the area, we have had several reports of layoffs in the community and in areas our community members' work.

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- Recent downturns in the economy and discussion at the state level regarding across-the-board cuts and/or reduction in allowable growth will play an important factor in meeting the needs of our district. Although the District has a healthy unspent balance and cash reserve, these funds could quickly be depleted.
  - In February 2009, the District approved a new Revenue Statement of Purpose for the LOSST. This will allow a greater use of LOSST Funds and adding to the capacity for projects that have primarily been PPEL projects.
  - The District has Board and voter approved PPEL levy allowed to be as high as \$1.00 per thousand, and the District's current county LOSST that will transfer to the state-wide plan as each expire. Due to current economic conditions, the District will need to be very careful how these funds are used and what is requested from patrons in the form of a bond issue. The District will attempt to use LOSST funds for ongoing repair and maintenance of facilities rather than additional bonding of these revenue based funds.
  - Future increases to teachers' salaries are tied to the allowable growth set by the state, which allows for a positive situation for the district.
  - Over the past several years, the District's open enrollment in and out numbers have stayed relatively the same and have increased slightly. The District will need to be careful of funding ongoing expenditures with funds as variable as open enrollment. The District needs to continue to foster open enrollment to the extent that facilities allow.
  - The District's average of enrollment over the past ten years is 516 students. The highest has been 533.7 in FY10 and the lowest has been 485.70 in FY06. It is prudent for the District to plan for growth of 10-15 students per year.
  - The District currently has a LOSST from Warren and Madison Counties. How these two sales tax sources blend, depending on the impact one has on the other, will impact LOSST dollars available for facility needs. The statewide SAVE plan passed in the 2009 Legislative session will help address some property tax equalization statewide, it will not provide any property tax relief for MSTM. Once Warren and Madison county revenues roll into the statewide pool, MSTM will likely see an increase in funding from the SAVE / LOSST fund.
  - Although current facilities are in good condition, there has been an increasing need for annual facility maintenance funds, as District facilities are no longer under warranty and starting to age. Much of the increased cost is associated with managing increased technology in our mechanical and electrical systems. The voters of the District approved a voted-PPEL levy to help meet the annual facility maintenance needs.
  - There is not a rapid addition of facilities due to the lack of significant residential and commercial taxable valuation growth. This will likely have an impact on the district property tax rate. Although district enrollment growth has been manageable, rates of growth similar to other area districts will result in a significant impact upon facilities and in the property tax rate.
  - Ongoing discussions of increasing the residential property and improving the sewer system of Martensdale have been made.

- 
- Funding from the State of Iowa in FY10 had been cut by 1.5% and there were indications that FY11 may experience nearly that level or more. The District took positive steps to counter balance such situations by using a variety of financial tools and extensive financial planning models for the future. These include under spending FY09 revenues, enhanced early retirement model in FY10, adjustments in fund rates, use and increased cash reserve together with prudent fiscal management will assist the district managing such shortfalls from the state.

## **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 Jill Gavin, Business Manager, Martensdale-St. Marys Community School District, PO Box 350, Martensdale, Iowa, 50160.

Martensdale-St. Marys Community School District

# **Basic Financial Statements**

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:	\$ 2,688,366	78,075	2,766,441
Receivables:			
Property tax:			
Delinquent	27,367	-	27,367
Succeeding year	2,346,036	-	2,346,036
Income surtax	194,394	-	194,394
Accounts	32,530	-	32,530
Due from other governments	373,882	-	373,882
Inventories	-	3,346	3,346
Capital assets, net of accumulated depreciation	7,175,636	32,891	7,208,527
<b>Total assets</b>	<b>12,838,211</b>	<b>114,312</b>	<b>12,952,523</b>
<b>Liabilities</b>			
Accounts payable	167,440	1,434	168,874
Salaries and benefits payable	418,673	-	418,673
Interest payable	94,583	-	94,583
Deferred revenue:			
Succeeding year property tax	2,346,036	-	2,346,036
Other	65,767	-	65,767
Unearned revenue	-	4,934	4,934
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	130,000	-	130,000
Revenue bonds	100,000	-	100,000
Early retirement	17,338	-	17,338
Portion due after one year:			
General obligation bonds	1,860,000	-	1,860,000
Revenue bonds	3,655,000	-	3,655,000
Early retirement	58,165	-	58,165
Net OPEB liability	189,632	-	189,632
<b>Total liabilities</b>	<b>9,102,634</b>	<b>6,368</b>	<b>9,109,002</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,430,636	32,891	1,463,527
Restricted for:			
Categorical funding	159,395	-	159,395
Debt service	556,857	-	556,857
Student activities	61,800	-	61,800
School infrastructure	364,937	-	364,937
Physical plant and equipment	128,174	-	128,174
Unrestricted	1,033,778	75,053	1,108,831
<b>Total net assets</b>	<b>\$ 3,735,577</b>	<b>107,944</b>	<b>3,843,521</b>

SEE NOTES TO FINANCIAL STATEMENTS

**MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,529,139	530,334	154,089	(1,844,716)	-	(1,844,716)
Special	695,328	75,823	62,874	(556,631)	-	(556,631)
Other	587,066	172,892	61,708	(352,466)	-	(352,466)
	<u>3,811,533</u>	<u>779,049</u>	<u>278,671</u>	<u>(2,753,813)</u>	<u>-</u>	<u>(2,753,813)</u>
Support services:						
Student	115,701	-	3,419	(112,282)	-	(112,282)
Instructional staff	64,822	-	-	(64,822)	-	(64,822)
Administration	557,398	-	1,497	(555,901)	-	(555,901)
Operation and maintenance of plant	485,033	-	-	(485,033)	-	(485,033)
Transportation	266,127	-	13,856	(252,271)	-	(252,271)
	<u>1,489,081</u>	<u>-</u>	<u>18,772</u>	<u>(1,470,309)</u>	<u>-</u>	<u>(1,470,309)</u>
Other expenses:						
Long-term debt:						
Interest and fiscal charges	322,582	-	-	(322,582)	-	(322,582)
AEA flowthrough	204,930	-	204,930	-	-	-
Depreciation(unallocated)*	167,831	-	-	(167,831)	-	(167,831)
	<u>695,343</u>	<u>-</u>	<u>204,930</u>	<u>(490,413)</u>	<u>-</u>	<u>(490,413)</u>
Total governmental activities	<u>5,995,957</u>	<u>779,049</u>	<u>502,373</u>	<u>(4,714,535)</u>	<u>-</u>	<u>(4,714,535)</u>
Business Type activities:						
Support services:						
Administration	1,733	-	-	-	(1,733)	(1,733)
Non-instructional programs:						
Food service operations	228,061	136,512	93,530	-	1,981	1,981
Day care operations	46,546	73,810	-	-	27,264	27,264
Total business type activities	<u>276,340</u>	<u>210,322</u>	<u>93,530</u>	<u>-</u>	<u>27,512</u>	<u>27,512</u>
Total	<u>\$ 6,272,297</u>	<u>989,371</u>	<u>595,903</u>	<u>(4,714,535)</u>	<u>27,512</u>	<u>(4,687,023)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 1,844,907	-	1,844,907
Debt service				215,148	-	215,148
Capital outlays				116,163	-	116,163
Income surtax				197,733	-	197,733
Statewide sales, services and use tax				360,195	-	360,195
Unrestricted state grants				2,474,459	-	2,474,459
Nonspecific program federal grants				90,485	-	90,485
Unrestricted investment earnings				17,712	-	17,712
Other general revenues				72,698	-	72,698
Total general revenues				<u>5,389,500</u>	<u>-</u>	<u>5,389,500</u>
Change in net assets				674,965	27,512	702,477
Net assets beginning of year				3,060,612	80,432	3,141,044
Net assets end of year				<u>\$ 3,735,577</u>	<u>107,944</u>	<u>3,843,521</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General	Capital Projects	Debt Service	Nonmajor	Total
<b>Assets</b>					
Cash and pooled investments	\$ 1,770,676	287,546	554,151	75,993	2,688,366
Receivables:					
Property tax:					
Delinquent	22,574	1,461	2,706	626	27,367
Succeeding year	1,927,014	122,049	216,973	80,000	2,346,036
Income surtax	194,394	-	-	-	194,394
Accounts	32,530	-	-	-	32,530
Due from other governments	166,078	207,804	-	-	373,882
<b>Total assets</b>	<b>\$ 4,113,266</b>	<b>618,860</b>	<b>773,830</b>	<b>156,619</b>	<b>5,662,575</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	163,740	3,700	-	-	167,440
Salaries and benefits payable	418,673	-	-	-	418,673
Deferred revenue:					
Succeeding year property tax	1,927,014	122,049	216,973	80,000	2,346,036
Income surtax	194,394	-	-	-	194,394
Other	65,767	-	-	-	65,767
<b>Total liabilities</b>	<b>2,769,588</b>	<b>125,749</b>	<b>216,973</b>	<b>80,000</b>	<b>3,192,310</b>
Fund balances:					
Restricted for:					
Categorical funding	159,395	-	-	-	159,395
Debt service	-	-	556,857	-	556,857
Management levy purposes	-	-	-	15,073	15,073
Student activities	-	-	-	61,800	61,800
School infrastructure	-	364,937	-	-	364,937
Physical plant and equipment	-	128,174	-	-	128,174
Unassigned:					
General	1,184,283	-	-	-	1,184,283
Student activities	-	-	-	(254)	(254)
<b>Total fund balances</b>	<b>1,343,678</b>	<b>493,111</b>	<b>556,857</b>	<b>76,619</b>	<b>2,470,265</b>
<b>Total liabilities and fund balances</b>	<b>\$ 4,113,266</b>	<b>618,860</b>	<b>773,830</b>	<b>156,619</b>	<b>5,662,575</b>

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS 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 22)</b>	\$	2,470,265
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		7,175,636
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		194,394
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds.		(94,583)
Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.		<u>(6,010,135)</u>
<b>Net assets of governmental activities(page 20)</b>	<b>\$</b>	<b><u><u>3,735,577</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS 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	\$ 2,010,063	476,358	215,148	49,795	2,751,364
Tuition	527,169	-	-	-	527,169
Other	139,817	19,857	3,606	179,010	342,290
State sources	2,776,430	-	-	-	2,776,430
Federal sources	290,887	-	-	-	290,887
Total revenues	<u>5,744,366</u>	<u>496,215</u>	<u>218,754</u>	<u>228,805</u>	<u>6,688,140</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,407,404	558	-	2,184	2,410,146
Special	687,416	-	-	-	687,416
Other	402,332	-	-	167,917	570,249
	<u>3,497,152</u>	<u>558</u>	<u>-</u>	<u>170,101</u>	<u>3,667,811</u>
Support services:					
Student	113,896	-	-	-	113,896
Instructional staff	32,044	-	-	17,339	49,383
Administration	532,236	-	-	2,118	534,354
Operation and maintenance of plant	373,178	61,108	-	45,891	480,177
Transportation	248,319	9,033	-	2,781	260,133
	<u>1,299,673</u>	<u>70,141</u>	<u>-</u>	<u>68,129</u>	<u>1,437,943</u>
Other expenditures:					
Facilities acquisitions	-	56,352	-	-	56,352
Long-term debt:					
Principal	-	-	125,000	-	125,000
Interest and fiscal charges	-	-	267,323	-	267,323
AEA flowthrough	204,930	-	-	-	204,930
	<u>204,930</u>	<u>56,352</u>	<u>392,323</u>	<u>-</u>	<u>653,605</u>
Total expenditures	<u>5,001,755</u>	<u>127,051</u>	<u>392,323</u>	<u>238,230</u>	<u>5,759,359</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>742,611</u>	<u>369,164</u>	<u>(173,569)</u>	<u>(9,425)</u>	<u>928,781</u>
Other financing sources(uses):					
Transfer in	-	6,315	276,162	-	282,477
Transfer out	-	(276,162)	-	(6,315)	(282,477)
Total other financing sources(uses)	<u>-</u>	<u>(269,847)</u>	<u>276,162</u>	<u>(6,315)</u>	<u>-</u>
Net change in fund balances	742,611	99,317	102,593	(15,740)	928,781
Fund balances beginning of year, as restated	601,067	393,794	454,264	92,359	1,541,484
Fund balances end of year	<u>\$ 1,343,678</u>	<u>493,111</u>	<u>556,857</u>	<u>76,619</u>	<u>2,470,265</u>

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS 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 24)** \$ 928,781

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures, depreciation expense and loss on disposal in the current year are as follows:

Expenditures for capital assets	\$ 53,292	
Depreciation expense	(220,079)	
Loss on disposal	(1,430)	(168,217)

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. 125,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (55,259)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (17,218)

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

Early retirement	\$ (48,168)	
Post employment benefits	678	
Other postemployment benefits	(90,632)	(138,122)

**Changes in net assets of governmental activities(page 21)** \$ 674,965

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2011

	School Nutrition	Day Care	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 47,588	30,487	78,075
Inventories	3,346	-	3,346
Capital assets, net of accumulated depreciation	32,891	-	32,891
<b>Total assets</b>	<b>83,825</b>	<b>30,487</b>	<b>114,312</b>
<b>Liabilities</b>			
Accounts payable	-	1,434	1,434
Unearned revenue	4,934	-	4,934
<b>Total liabilities</b>	<b>4,934</b>	<b>1,434</b>	<b>6,368</b>
<b>Net Assets</b>			
Invested in capital assets	32,891	-	32,891
Unrestricted	46,000	29,053	75,053
<b>Total net assets</b>	<b>\$ 78,891</b>	<b>29,053</b>	<b>107,944</b>

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	School Nutrition	Day Care	Total
Operating revenues:			
Local sources:			
Charges for services	\$ 136,512	73,810	210,322
Operating expenses:			
Support services:			
Administration:			
Other	-	1,733	1,733
Non-instructional programs:			
Food service operations:			
Salaries	78,392	-	78,392
Benefits	14,393	-	14,393
Services	6,560	-	6,560
Supplies	122,842	-	122,842
Other	50	-	50
Depreciation	5,824	-	5,824
	228,061	-	228,061
Community service operations:			
Salaries	-	33,353	33,353
Benefits	-	4,847	4,847
Services	-	120	120
Supplies	-	8,226	8,226
Total non-instructional programs	228,061	46,546	46,546
Total operating expenses	228,061	48,279	276,340
Operating income(loss)	(91,549)	25,531	(66,018)
Non-operating revenues:			
State sources	2,208	-	2,208
Federal sources	91,322	-	91,322
Total non-operating revenues	93,530	-	93,530
Changes in net assets	1,981	25,531	27,512
Net assets beginning of year	76,910	3,522	80,432
Net assets end of year	\$ 78,891	29,053	107,944

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2011

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 136,264	-	136,264
Cash received from miscellaneous operating activities	-	73,810	73,810
Cash payments to employees for services	(92,785)	(38,200)	(130,985)
Cash payments to suppliers for goods or services	(105,231)	(9,256)	(114,487)
Net cash provided by(used in) operating activities	(61,752)	26,354	(35,398)
Cash flows from non-capital financing activities:			
State grants received	2,208	-	2,208
Federal grants received	70,630	-	70,630
Net cash provided by non-capital financing activities	72,838	-	72,838
Net increase in cash and cash equivalents	11,086	26,354	37,440
Cash and cash equivalents at beginning of year	36,502	4,133	40,635
Cash and cash equivalents at end of year	\$ 47,588	30,487	78,075
<b>Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:</b>			
Operating income(loss)	\$ (91,549)	25,531	(66,018)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	20,692	-	20,692
Depreciation	5,824	-	5,824
Decrease in inventories	3,639	-	3,639
Increase(Decrease) in accounts payable	(110)	823	713
Decrease in deferred revenue	(248)	-	(248)
Net cash provided by(used in) operating activities	\$ (61,752)	26,354	(35,398)

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

During the year ended June 30, 2011, the District received \$20,692 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2011

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
<b>Assets</b>		
Cash and pooled investments	\$	77,087
<b>Liabilities</b>		-
<b>Net Assets</b>		
Restricted for scholarships		76,000
Unrestricted		1,087
<b>Total net assets</b>	<u>\$</u>	<u>77,087</u>

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 250
Interest income	3,628
Total additions	<u>3,878</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>3,250</u>
Change in net assets	628
Net assets beginning of year	<u>76,459</u>
Net assets end of year	<u>\$ 77,087</u>

SEE NOTES TO FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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

The Martensdale-St. Marys Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and pre-kindergarten. The geographic area served includes the Cities of Martensdale and St. Marys, Iowa, and the predominate agricultural territories in Warren and Madison 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, Martensdale-St. Marys 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 Martensdale-St. Marys Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

**B. Basis of Presentation**

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

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project 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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The 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 general long-term debt .

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

The District reports the following proprietary funds:

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

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

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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

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

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

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable 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 in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

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

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; 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 Obligations Portfolio which are valued at an amortized cost of \$1,664,880 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

**(3) Transfers**

The detail of interfund 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	\$ 276,162
Capital Projects: Statewide Sales, Services and Use Tax	Special Revenue: Student Activity	6,315
Total		<u>\$ 282,477</u>

The transfer from Capital Projects: Statewide Sales, Services and Use Tax Fund to Debt Service Fund was needed for principal and interest payments on the District’s revenue bond indebtedness.

The transfer from the Special Revenue: Student Activity Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund was needed as a correction for revenues that were recorded incorrectly in the prior year.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. A summary of the District’s ISCAP activity for the year ended June 30, 2011 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2010-11A	06/30/10	06/23/11	\$ -	50,000	50,000	-

During the year ended June 30, 2011, the District paid \$63 of interest on the ISCAP warrants.

**(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	\$ 153,973	-	-	153,973
Less accumulated depreciation	115,258	5,824	-	121,082
Business type activities capital assets, net	<u>\$ 38,715</u>	<u>(5,824)</u>	<u>-</u>	<u>32,891</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 431,172	-	-	431,172
Land improvements	80,969	17,847	-	98,816
Buildings and improvements	8,379,077	-	-	8,379,077
Machinery and equipment	918,647	35,445	110,070	844,022
Total capital assets being depreciated	9,378,693	53,292	110,070	9,321,915
Less accumulated depreciation for:				
Land improvements	17,468	4,969	-	22,437
Buildings and improvements	1,682,220	162,862	-	1,845,082
Machinery and equipment	766,324	52,248	108,640	709,932
Total accumulated depreciation	2,466,012	220,079	108,640	2,577,451
Total capital assets being depreciated, net	6,912,681	(166,787)	1,430	6,744,464
Governmental activities capital assets, net	\$ 7,343,853	(166,787)	1,430	7,175,636
Depreciation expense was charged by the District as follows:				
Instruction:				
Regular				\$ 5,849
Other				15,349
Support services:				
Student				400
Instructional staff				9,367
Administration				2,920
Operation and maintenance of plant				3,469
Transportation				14,894
Unallocated depreciation				167,831
Total governmental activities depreciation expense				\$ 220,079
Business type activities:				
Food services				\$ 5,824

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,115,000	-	125,000	1,990,000	130,000
Revenue Bonds	3,755,000	-	-	3,755,000	100,000
Post Employment Benefits	678	-	678	-	-
Early Retirement	27,335	65,506	17,338	75,503	17,338
Net OPEB liability	99,000	90,632	-	189,632	-
Total	\$ 5,997,013	156,138	143,016	6,010,135	247,338

### General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of December 31, 2003				
	Interest Rates		Principal	Interest	Total
2012	3.50	% \$	130,000	86,573	216,573
2013	3.75		135,000	82,022	217,022
2014	4.00		140,000	76,960	216,960
2015	4.10		150,000	71,360	221,360
2016	4.20		155,000	65,210	220,210
2017-2021	4.30-4.70		870,000	220,170	1,090,170
2021-2023	4.75		410,000	29,450	439,450
Total			<u>\$ 1,990,000</u>	<u>631,745</u>	<u>2,621,745</u>

### Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 21, 2009				
	Interest Rates		Principal	Interest	Total
2012	3.50	% \$	100,000	172,988	272,988
2013	3.50		100,000	169,488	269,488
2014	3.50		140,000	165,288	305,288
2015	3.50		145,000	160,301	305,301
2016	4.00		155,000	154,663	309,663
2017-2021	4.00-4.63		875,000	671,330	1,546,330
2022-2026	5.00-5.13		1,110,000	439,157	1,549,157
2027-2030	5.13-5.25		1,130,000	121,910	1,251,910
Total			<u>\$ 3,755,000</u>	<u>2,055,125</u>	<u>5,810,125</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,755,000 of bonds issued in May 2009. The bonds were issued for the purpose of financing construction projects. 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 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 75 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$5,810,125. For the current year, \$174,738 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$360,195.

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

- a) \$321,237 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.

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Employees participating in the early retirement plan are eligible to continue participation in the District's group insurance plan by meeting the requirements of the insurer. The District will pay the cost of the single premium at the level it was when the employee retired. The employee is responsible for paying any increase in premium costs. Early retirement benefits paid during the year ended June 30, 2011, totaled \$17,338.

#### Post Employment Benefits

The District offered a post employment benefit package. The post employment benefit included family health insurance for four years with a cap of \$800 per month and two more years of single health insurance with a cap of \$315 per month. The post employment benefit was paid from the General Fund.

### **(7) Operating Lease Obligations**

The District leases four copiers and one printer on a monthly basis. The lease contract for the four copiers extends through April 30, 2014. The lease contract for the printer extends through August 31, 2014. Annual payments for the copier and printer leases are \$23,484 and \$11,460 respectively.

### **(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$182,402, \$187,115, and \$179,710, respectively, equal to the required contributions for each year.

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 51 active and 4 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 United Healthcare. 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	\$ 136,000
Interest on net OPEB obligation	4,455
Adjustment to annual required contribution	(3,823)
Annual OPEB cost	<u>136,632</u>
Contributions made	<u>(46,000)</u>
Increase in net OPEB obligation	90,632
Net OPEB obligation beginning of year	<u>99,000</u>
Net OPEB obligation end of year	<u>\$ 189,632</u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of the 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 \$46,000, to the medical plan. Plan members eligible for benefits contributed \$36,000, or 43.90% of the premium costs.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 136,000	27.2%	\$ 99,000
2011	136,632	33.7%	189,632

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 \$725,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$725,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,994,896 and the ratio of the UAAL to covered payroll was 36.3%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of 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 alternative measurement method was used. The actuarial assumptions include a 4.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 10.5%. 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, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$397 per month for retirees on the HMO plan and \$446 per month for retirees on the POS plan. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(10) Risk Management**

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

**(11) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$204,930 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.

**(12) Categorical Funding**

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

Program	Amount
Weighted At-Risk Programs	\$ 19,634
Gifted and Talented Programs	1,561
Returning Dropouts and Dropout Prevention Programs	83,814
Beginning Teacher Mentoring and Induction Program	6,046
Teacher Salary Supplement	26,638
Market Factor	449
Professional Development for Model Core Curriculum	3,615
Professional Development	13,874
Market Factor Incentives	<u>3,764</u>
Total	<u>\$ 159,395</u>

(13) **Account Change/Restatement**

Governmental Accounting Standards Board Statements 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:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously stated	\$ 331,369	62,425
Change in fund type classification per implementation of GASB Statement No. 54	<u>62,425</u>	<u>(62,425)</u>
Balances July 1, 2010, as restated	<u><u>\$ 393,794</u></u>	<u><u>-</u></u>

## **Required Supplementary Information**

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types Actual	Fund Types Actual		Original	Final	
Revenues:						
Local sources	\$ 3,620,823	210,322	3,831,145	3,711,462	3,711,462	119,683
State sources	2,776,430	2,208	2,778,638	3,032,014	3,032,014	(253,376)
Federal sources	290,887	91,322	382,209	200,000	200,000	182,209
Total revenues	<u>6,688,140</u>	<u>303,852</u>	<u>6,991,992</u>	<u>6,943,476</u>	<u>6,943,476</u>	<u>48,516</u>
Expenditures/Expenses:						
Instruction	3,667,811	-	3,667,811	4,213,000	5,500,000	1,832,189
Support services	1,437,943	1,733	1,439,676	2,010,000	3,500,000	2,060,324
Non-instructional programs	-	274,607	274,607	290,000	500,000	225,393
Other expenditures	653,605	-	653,605	1,053,072	4,000,000	3,346,395
Total expenditures/expenses	<u>5,759,359</u>	<u>276,340</u>	<u>6,035,699</u>	<u>7,566,072</u>	<u>13,500,000</u>	<u>7,464,301</u>
Excess (Deficiency) of revenues over (under) expenditures/expenses	928,781	27,512	956,293	(622,596)	(6,556,524)	7,512,817
Other financing sources (uses), net	-	-	-	(74,737)	(74,737)	74,737
Excess(Deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses	928,781	27,512	956,293	(697,333)	(6,631,261)	7,587,554
Balances beginning of year	<u>1,541,484</u>	<u>80,432</u>	<u>1,621,916</u>	<u>1,460,751</u>	<u>1,460,751</u>	<u>161,165</u>
Balances end of year	<u>\$ 2,470,265</u>	<u>107,944</u>	<u>2,578,209</u>	<u>763,418</u>	<u>(5,170,510)</u>	<u>7,748,719</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund 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 function 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. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$5,933,928.

MARTENSDALE-ST. MARYS 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-c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1 ,2009	-	\$ 725,000	725,000	0.0%	\$ 2,330,014	31.1%
2011	July 1 ,2009	-	725,000	725,000	0.0%	1,994,896	36.3%

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

## **Other Supplementary Information**

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>Assets</b>			
Cash and pooled investments	\$ 14,447	61,546	75,993
Receivables:			
Property tax:			
Delinquent	626	-	626
Succeeding year	80,000	-	80,000
<b>Total assets</b>	<b>\$ 95,073</b>	<b>61,546</b>	<b>156,619</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 80,000	-	80,000
Total liabilities	80,000	-	80,000
Fund balances:			
Restricted for:			
Management levy purposes	15,073	-	15,073
Student activities	-	61,800	61,800
Unassigned	-	(254)	(254)
Total fund balances	15,073	61,546	76,619
<b>Total liabilities and fund balances</b>	<b>\$ 95,073</b>	<b>61,546</b>	<b>156,619</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 49,795	-	49,795
Other	6,118	172,892	179,010
Total revenues	<u>55,913</u>	<u>172,892</u>	<u>228,805</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,184	-	2,184
Other	-	167,917	167,917
Support services:			
Instructional staff	17,339	-	17,339
Administration	2,118	-	2,118
Operation and maintenance of plant	45,891	-	45,891
Transportation	2,781	-	2,781
Total expenditures	<u>70,313</u>	<u>167,917</u>	<u>238,230</u>
Excess(Deficiency) of revenues over(under) expenditures	(14,400)	4,975	(9,425)
Other financing uses:			
Transfer out	-	(6,315)	(6,315)
Net change in fund balances	(14,400)	(1,340)	(15,740)
Fund balances beginning of year, as restated	29,473	62,886	92,359
Fund balances end of year	<u>\$ 15,073</u>	<u>61,546</u>	<u>76,619</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 157,133	130,413	287,546
Receivables:			
Property tax:			
Delinquent	-	1,461	1,461
Succeeding year	-	122,049	122,049
Due from other governments	207,804	-	207,804
<b>Total assets</b>	<b>\$ 364,937</b>	<b>253,923</b>	<b>618,860</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	3,700	3,700
Deferred revenue:			
Succeeding year property tax	-	122,049	122,049
<b>Total liabilities</b>	<b>-</b>	<b>125,749</b>	<b>125,749</b>
Fund balances:			
Restricted for:			
School infrastructure	364,937	-	364,937
Physical plant and equipment	-	128,174	128,174
<b>Total fund balances</b>	<b>364,937</b>	<b>128,174</b>	<b>493,111</b>
<b>Total liabilities and fund balances</b>	<b>\$ 364,937</b>	<b>253,923</b>	<b>618,860</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS 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	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 360,195	116,163	476,358
Other	130	19,727	19,857
Total revenues	<u>360,325</u>	<u>135,890</u>	<u>496,215</u>
Expenditures:			
Instruction:			
Regular	558	-	558
Support services:			
Operation and maintenance of plant	-	61,108	61,108
Transportation	-	9,033	9,033
Other expenditures:			
Facilities acquisitions	56,352	-	56,352
Total expenditures	<u>56,910</u>	<u>70,141</u>	<u>127,051</u>
Excess of revenues over expenditures	303,415	65,749	369,164
Other financing sources(uses):			
Transfer in	6,315	-	6,315
Transfer out	(276,162)	-	(276,162)
Total other financing sources(uses)	<u>(269,847)</u>	<u>-</u>	<u>(269,847)</u>
Net change in fund balances	33,568	65,749	99,317
Fund balaces beginning year, as restated	<u>331,369</u>	<u>62,425</u>	<u>393,794</u>
Fund balances end of year	<u>\$ 364,937</u>	<u>128,174</u>	<u>493,111</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 DEBT SERVICE FUNDS  
 JUNE 30, 2011

	Debt Service	Debt Sinking	Total
<b>Assets</b>			
Cash and pooled investments	\$ 41,985	512,166	554,151
Receivables:			
Property tax:			
Delinquent	2,706	-	2,706
Succeeding year	216,973	-	216,973
<b>Total assets</b>	<b>\$ 261,664</b>	<b>512,166</b>	<b>773,830</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 216,973	-	216,973
Fund balances:			
Restricted for:			
Debt service	44,691	512,166	556,857
<b>Total liabilities and fund balances</b>	<b>\$ 261,664</b>	<b>512,166</b>	<b>773,830</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 DEBT SERVICE FUNDS  
 YEAR ENDED JUNE 30, 2011

	Debt Service	Debt Sinking	Total
Revenues:			
Local sources:			
Local tax	\$ 215,148	-	215,148
Other	-	3,606	3,606
Total revenues	215,148	3,606	218,754
Expenditures:			
Other expenditures:			
Long-term debt:			
Principal	125,000	-	125,000
Interest and fiscal charges	91,085	176,238	267,323
Total expenditures	216,085	176,238	392,323
Deficiency of revenues under expenditures	(937)	(172,632)	(173,569)
Other financing sources:			
Transfer in	-	276,162	276,162
Net change in fund balances	(937)	103,530	102,593
Fund balances beginning of year	45,628	408,636	454,264
Fund balances end of year	\$ 44,691	512,166	556,857

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS 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	Interfund and Intrafund Transfers	Balance End of Year
Drama	\$ 1,640	1,135	1,287	-	1,488
Vocal Music	1,665	909	613	-	1,961
Instrumental Music	70	1,350	571	-	849
Music Resale	880	2,406	1,344	-	1,942
Band	424	-	-	-	424
Boys Basketball	3,791	1,500	3,459	-	1,832
Athletic Resale	4	-	4	-	-
Athletics	1,955	65,371	58,948	-	8,378
Golf	493	-	-	-	493
Girls Basketball	2,752	7,184	7,617	-	2,319
Elementary Student Council	1,213	11,094	11,442	-	865
Volleyball	193	4,470	4,696	-	(33)
Boys Track	542	300	542	-	300
Tennis	-	-	110	-	(110)
Football	6,563	13,143	16,471	-	3,235
Cross Country	442	305	278	-	469
Baseball	2,926	20,713	20,847	-	2,792
Girls Track	1,036	966	1,415	-	587
Wrestling	841	1,359	825	-	1,375
Softball	570	3,207	3,020	-	757
Junior High Student Council	126	297	200	-	223
Pop	413	2,662	251	-	2,824
Student Council	605	1,706	2,020	-	291
Shop	162	-	-	-	162
Home Ec	171	-	-	-	171
Art	-	141	-	-	141
Student Ambassadors	-	-	32	-	(32)
National Honor Society	472	-	303	-	169
Dance	2,037	3,418	4,152	-	1,303
Linn Grove	225	825	947	-	103
Class of 2010	707	-	350	(357)	-
Class of 2011	281	6,797	7,234	357	201
Class of 2012	325	5,583	5,987	-	(79)
Class of 2013	1,666	-	-	-	1,666
Class of 2014	452	-	-	-	452
Class of 2015	748	25	-	-	773
Class of 2016	-	414	-	-	414
Spirit Club	509	1,019	1,019	(509)	-
Share the vision	7,159	-	-	(6,315)	844
Annual	16,848	5,116	4,299	-	17,665
Wrestling Cheerleaders	796	-	169	-	627
FB/BB Cheerleaders	1,198	8,106	6,449	-	2,855
Grid Iron Football	-	-	359	509	150
Pink Out	-	500	-	-	500
General Activities	(14)	871	657	-	200
<b>Total</b>	<b>\$ 62,886</b>	<b>172,892</b>	<b>167,917</b>	<b>(6,315)</b>	<b>61,546</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS 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	\$ 2,751,364	2,382,621	2,199,499	2,104,531	2,020,429	1,828,027	1,782,209	1,468,089
Tuition	527,169	685,781	608,670	500,882	346,166	268,793	193,115	237,180
Other	342,290	333,415	287,204	299,851	277,391	257,101	274,261	228,111
State sources	2,776,430	2,393,631	2,718,850	2,653,668	2,535,980	2,256,776	2,278,432	2,197,005
Federal sources	290,887	457,552	222,901	141,168	163,723	387,275	304,235	186,085
Total	<u>\$ 6,688,140</u>	<u>6,253,000</u>	<u>6,037,124</u>	<u>5,700,100</u>	<u>5,343,689</u>	<u>4,997,972</u>	<u>4,832,252</u>	<u>4,316,470</u>
Expenditures:								
Current:								
Instruction:								
Regular	\$ 2,410,146	2,676,284	2,560,160	2,196,803	2,091,929	1,919,119	1,802,790	1,824,800
Special	687,416	690,996	758,459	632,249	524,806	592,288	645,026	422,627
Other	570,249	363,336	314,631	487,519	405,925	346,799	358,071	367,606
Support services:								
Student	113,896	92,463	134,847	142,225	140,778	103,331	93,793	89,627
Instructional staff	49,383	33,212	37,821	42,106	41,249	58,315	60,109	57,935
Administration	534,354	726,635	831,298	558,761	573,015	522,627	461,959	519,924
Operation and maintenance of plant	480,177	496,783	647,045	529,581	607,604	442,073	418,060	348,965
Transportation	260,133	289,384	395,251	293,594	271,562	264,664	208,206	197,403
Other	-	-	-	-	-	-	-	4,883
Other expenditures:								
Facilities acquisitions	56,352	3,487,168	241,349	104,111	179,494	390,091	2,501,314	231,636
Long-term debt:								
Principal	125,000	120,000	115,000	110,000	105,000	100,000	47,985	12,360
Interest and fiscal charges	267,323	203,369	100,722	105,673	110,398	115,646	176,478	1,274
AEA flow-through	204,930	203,315	178,130	170,406	159,775	141,717	140,879	139,942
Total	<u>\$ 5,759,359</u>	<u>9,382,945</u>	<u>6,314,713</u>	<u>5,373,028</u>	<u>5,211,535</u>	<u>4,996,670</u>	<u>6,914,670</u>	<u>4,218,982</u>

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  
Martensdale-St Marys 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 Martensdale-St Marys Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 6, 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 Martensdale-St Marys Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Martensdale-St Marys Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Martensdale-St Marys Community School District's internal control over financial reporting.

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

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

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-B-11 and I-C-11 to be significant deficiencies.

Compliance and Other Matters

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

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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Martensdale-St Marys 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.

February 6, 2012

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30 2011

**Part I: Findings Related to the Basic Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement them as soon as possible. Business Manager does review reports monthly with Superintendent's Secretary.

Conclusion - Response accepted.

I-B-11 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process; however, we noted instances of purchase orders that were being completed after the product had been ordered and other instances of purchase orders not being used at all.

Recommendation -The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - The District will review the process for ordering supplies and materials through a purchase order system, and will communicate the system for completing purchase orders prior to purchasing materials and supplies with administrative secretaries, staff, administrators and Buildings and Grounds Director.

Conclusion - Response accepted.

I-C-11 Student Activity Fund - We noted during our audit that the District is writing checks made payable to the bank which are subsequently cashed at that bank for start-up money at District events.

Recommendation - The District writes various checks throughout the year for change boxes for startup cash at the gate for District events. It was noted that these checks were being written to the bank instead of the custodian/sponsor for these events and the bank. Checks made out to the bank alone are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. In the future the District should write the check payable to the custodian/sponsor.

Response - Start-up money for district activities will be obtained by submitting checks to City State Bank, in care of the Superintendent's Secretary, with her required signature.

Conclusion - Response accepted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30 2011

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

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

II-B-11 Questionable Disbursements - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District should refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups. The costs associated with the clothing should be reimbursed from the employee or added to their W-2's as additional compensation.

A better alternative may be to ask the Athletic Boosters or other affiliated organization to provide clothing for coaches and other District employees in lieu of using public funds.

Response - No items of apparel for coaches will be purchased with District General Fund or Activity Funds. The District Activities Director will meet with coaches and Booster club officers to develop appropriate and acceptable procedures, including procedures for purchasing, issuing items of apparel to coaches, and returning apparel at the conclusion of the season.

Conclusion - Response accepted.

II-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.

II-D-11 Business Transactions - No business transactions between the District and District officials were noted.

II-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.

II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

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

- II-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.
- II-J-11 Certified Annual Report - The Certified Annual Report was filed timely to the Iowa Department of Education.
- II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-11 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, 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		\$ 331,369
Revenues/transfers in:		
Sales tax revenues	\$ 360,195	
Other local revenues	130	
Transfer from other funds	6,315	366,640
		698,009
Expenditures/transfers out:		
School infrastructure construction	\$ 56,352	
Other	558	
Transferred to other funds:		
Debt service fund	276,162	333,072
		333,072
Ending Balance		\$ 364,937

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.