

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

JUNE 30, 2012

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Dave Scott	President	2011
David Stineman	Vice-President	2011
Julie Schossow	Board Member	2013
Deanna Berkey	Board Member	2011
Terry Collins	Board Member	2013
(After September 2011 Election)		
Terry Collins	President	2013
Julie Schossow	Vice-President	2013
Deanna Berkey	Board Member	2015
Terry Thompson	Board Member	2015
David Stineman	Board Member	2015
Tonya Dixon	(Resigned December 2011) Board Member (Appointed January 2012)	2013
School Officials		
Dr. Alan Meyer	Superintendent	2012
Nancy Burchland	Business Manager	2012
Cartwright, Druker And Ryden	Attorney	2012

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
East Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the East Marshall Community School District, Gilman, Iowa as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2013 on our consideration of East Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 46 through 48 be presented to supplement the basic

financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Marshall Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

January 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Marshall Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,762,401 in fiscal 2011 to \$9,004,997 in fiscal 2012, while General Fund expenditures increased from \$8,329,533 in fiscal 2011 to \$8,664,655 in fiscal 2012. Overall, the District's General Fund balance increased from \$1,079,231 in fiscal 2011 to \$1,419,573 in fiscal 2012, a 31.54% increase from the prior year.
- The increase in General Fund revenues was attributable to increases in tuition and state sources of revenue in fiscal 2012. The increase in expenditures was due primarily to increased instructional expenses.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds, Capital Projects Accounts and the Private Purpose Trust Fund. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

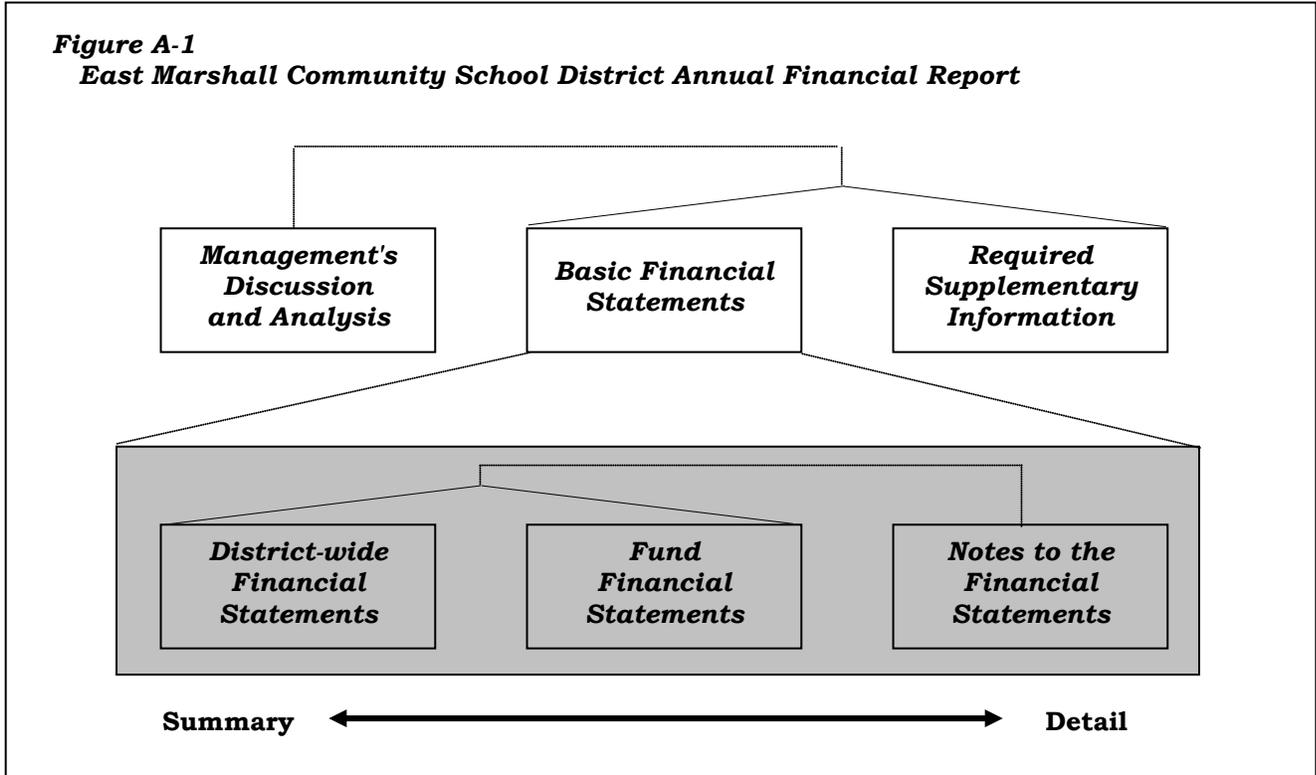


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses, e.g., food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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.

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- 3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust funds.
- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2012 compared to June 30, 2011.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 6,394,008	6,069,327	187,642	159,826	6,581,650	6,229,153	5.66%
Capital assets	9,337,707	9,187,317	92,538	104,781	9,430,245	9,292,098	1.49%
Total assets	15,731,715	15,256,644	280,180	264,607	16,011,895	15,521,251	3.16%
Long-term obligations	5,415,756	5,555,077	4,920	2,671	5,420,676	5,557,748	-2.47%
Other liabilities	4,047,873	4,072,799	37,551	38,912	4,085,424	4,111,711	-0.64%
Total liabilities	9,463,629	9,627,876	42,471	41,583	9,506,100	9,669,459	-1.69%
Net assets:							
Invested in capital assets, net of related debt	4,533,074	4,278,317	92,538	104,781	4,625,612	4,383,098	5.53%
Restricted	828,118	890,181	0	0	828,118	890,181	-6.97%
Unrestricted	906,894	460,270	145,171	118,243	1,052,065	578,513	81.86%
Total net assets	\$ 6,268,086	5,628,768	237,709	223,024	6,505,795	5,851,792	11.18%

The District's combined net assets increased by 11.18%, or \$654,003, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$62,063, or 6.97% from the prior year. The decrease is primarily due to the decrease in fund balance in the Management Fund, Debt Service Fund, and Capital Projects: Physical Plant and Equipment Levy.

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 \$473,552, or 81.86%. The increase is primarily due to the increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change 2011-12
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program revenues:							
Charges for services	\$ 1,989,745	1,681,908	193,939	187,244	2,183,684	1,869,152	16.83%
Operating grants, contributions and restricted interest	951,288	1,052,275	224,734	227,788	1,176,022	1,280,063	-8.13%
Capital grants, contributions and restricted interest	0	28,176	0	0	0	28,176	-100.00%
General revenues:							
Property tax	2,927,096	2,981,350	0	0	2,927,096	2,981,350	-1.82%
Income surtax	307,895	324,530	0	0	307,895	324,530	-5.13%
Statewide sales, services and use tax	505,488	414,925	0	0	505,488	414,925	21.83%
Nonspecific program federal funding	48,907	170,793	0	0	48,907	170,793	-71.36%
Unrestricted state grants	3,195,030	3,056,474	0	0	3,195,030	3,056,474	4.53%
Unrestricted interest earnings	17,071	19,760	933	983	18,004	20,743	-13.20%
Other	100,445	134,741	815	1,209	101,260	135,950	-25.52%
Total revenues	<u>10,042,965</u>	<u>9,864,932</u>	<u>420,421</u>	<u>417,224</u>	<u>10,463,386</u>	<u>10,282,156</u>	<u>1.76%</u>
Program expenses:							
Governmental activities:							
Instruction	5,531,833	5,275,725	0	0	5,531,833	5,275,725	4.85%
Support services	3,141,987	3,110,794	21,311	27,023	3,163,298	3,137,817	0.81%
Non-instructional programs	5,268	4,812	384,425	377,902	389,693	382,714	1.82%
Other expenses	724,559	789,294	0	0	724,559	789,294	-8.20%
Total expenses	<u>9,403,647</u>	<u>9,180,625</u>	<u>405,736</u>	<u>404,925</u>	<u>9,809,383</u>	<u>9,585,550</u>	<u>2.34%</u>
Change in net assets	639,318	684,307	14,685	12,299	654,003	696,606	-6.12%
Beginning net assets	<u>5,628,768</u>	<u>4,944,461</u>	<u>223,024</u>	<u>210,725</u>	<u>5,851,792</u>	<u>5,155,186</u>	<u>13.51%</u>
Ending net assets	<u>\$ 6,268,086</u>	<u>5,628,768</u>	<u>237,709</u>	<u>223,024</u>	<u>6,505,795</u>	<u>5,851,792</u>	<u>11.18%</u>

In fiscal 2012, property tax and unrestricted state grants account for 60.96% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.58% of the revenue from business type activities.

The District's total revenues were approximately \$10.46 million of which \$10.04 million was for governmental activities and \$0.42 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 1.76% in revenues and a 2.34% increase in expenses. The increase in expenses was related to an increase in instructional costs.

Governmental Activities

Revenues for governmental activities were \$10,042,965 and expenses were \$9,403,647. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5 Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 5,531,833	5,275,725	4.85%	2,932,681	2,857,706	2.62%
Support services	3,141,987	3,110,794	1.00%	3,082,590	3,077,839	0.15%
Non-instructional	5,268	4,812	9.48%	5,268	4,812	9.48%
Other expenses	724,559	789,294	-8.20%	442,075	477,909	-7.50%
Totals	\$ 9,403,647	9,180,625	2.43%	6,462,614	6,418,266	0.69%

For the year ended June 30, 2012:

- The cost financed by users of the District’s programs was \$1,989,745.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$951,288.
- The net cost of governmental activities was financed with \$2,927,096 in property tax, \$307,895 in income surtax, \$505,488 in statewide sales, services and use tax, \$3,195,030 in unrestricted state grants, \$48,907 in nonspecific program federal funding, \$17,071 in interest income and \$100,445 in other general revenues.

Business type Activities

Revenues of the District’s business type activities were \$420,421 and expenses were \$405,736. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,082,174, above last year’s ending fund balances of a \$1,717,575. This is primarily due to the increase in the General Fund balance.

Governmental Fund Highlights

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

- The General Fund Balance increased from \$1,079,231 in fiscal 2011 to \$1,419,573 in fiscal 2012. An increase in tuition and state sources of revenue helped contribute to the increase in revenues for the District, which allowed for an incline in fund balance.
- The fund balance in the Capital Projects Accounts increased from \$418,344 in fiscal 2011 to \$420,987 in fiscal 2012. The increase is due to an increase in local property and sales taxes.

Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$223,024 at June 30, 2011 to \$237,709 at June 30, 2012, representing an increase of 6.58%. The increase was the result of receiving more from federal sources to offset the rise in expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, East Marshall Community School District amended its budget one time to reflect additional expenditures in the support services, non-instructional programs and other expenditures functional areas.

The District's revenues were \$236,501 more than budgeted revenues, a variance of 2.31%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$9,430,245, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.49% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$453,778.

The original cost of the District's capital assets was \$14,988,919. Governmental funds account for \$14,738,369 with the remainder of \$250,550 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 construction in progress totaled \$0 at June 30, 2011, compared to \$377,348 at June 30, 2012. The increase in construction in progress is due to costs incurred during fiscal 2012 for the High School heat pump project.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 120,725	120,725	0	0	120,725	120,725	0.00%
Construction in Progress	377,348	0	0	0	377,348	0	100.00%
Buildings	8,146,639	8,361,638	0	0	8,146,639	8,361,638	-2.57%
Land improvements	235,841	249,820	0	0	235,841	249,820	-5.60%
Machinery and equipment	457,154	455,134	92,538	104,781	549,692	559,915	-1.83%
Total	\$ 9,337,707	9,187,317	92,538	104,781	9,430,245	9,292,098	1.49%

Long-Term Debt

At June 30, 2012, the District had \$5,420,676 in long-term debt outstanding. This represents a decrease of 2.47% 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.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 3,950,000	4,180,000	0	0	3,950,000	4,180,000	-5.50%
Energy loan notes	543,000	319,000	0	0	543,000	319,000	70.22%
Capital loan notes	315,000	410,000	0	0	315,000	410,000	-23.17%
Compensated absences	37,904	58,534	0	0	37,904	58,534	-35.24%
Early retirement	326,295	455,316	0	0	326,295	455,316	-28.34%
Net OPEB obligation	243,557	132,227	4,920	2,671	248,477	134,898	84.20%
Total	\$ 5,415,756	5,555,077	4,920	2,671	5,420,676	5,557,748	-2.47%

The District had general obligation bonds payable of \$3,950,000 at June 30, 2012.

The District had energy loan notes payable of \$543,000 at June 30, 2012, payable from the General Fund.

The District had capital loan notes payable of \$315,000 at June 30, 2012, payable from the Capital Projects: Physical Plant and Equipment Levy.

The District had early retirement payable of \$326,295 at June 30, 2012, payable from the Management Fund.

The District had compensated absences payable of \$37,904 at June 30, 2012.

The District had a net OPEB liability of \$243,557 in the governmental activities and \$4,920 in the business type activities.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The instructional support program allows the district to generate 10% of the total regular program district cost for the budget year for additional or enhanced current educational programs. The District can participate in the instructional support program by either holding an election, which allows participation for ten years, or by board resolution, which allows participation for five years. The East Marshall School Board implemented the program by resolution for a period of five years starting with 2002-03. The program is funded with a combination of state aid, property tax and income surtax. Income surtax is paid in the year following the year it is levied. On July 10, 2006, the board adopted a resolution to continue participation in the instructional support program for an additional five-year period through June 30, 2012. On November 14, 2011, the board adopted a resolution to continue the instructional support program for an additional five-year period through June 30, 2017.

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

- The District's certified enrollment decreased by 31 students in 2011. This decrease means the District will fall under the budget guarantee of 101%. The District resident enrollment trend over the past five years is downward by an average of 15 students per year.
- The District continues to have increasing open enrolled students. In 2010-11, open enrollment revenues were \$1,517,912, an increase of \$168,394 over 2009-10. In 2011-12, open enrollment revenues were \$1,729,305 an increase of \$211,393 over 2010-11.

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

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

contribution rate can change by +/-1% per year. The maximum rate for 2012-13 would be 14.45%. This will be an increasing cost for employee benefits.

- On April 1, 2009, the District issued \$590,000 of General Obligation PPEL Capital Loan Notes. The financing was used to complete a remodeling project at the middle school to address fire code citations and accessibility issues. The notes will be repaid over the next six years using the voter approved Physical Plant and Equipment Levy (PPEL).
- On March 1, 2012, the District issued \$273,000 of Energy Management Improvement Capital Loan Notes, Series 2012. The loan is financed by the State Energy Revolving Loan Fund. The loan was used to partially finance the replacement of the high school HVAC system with an energy efficient geothermal system. The loan will be repaid with the energy savings from the general fund.
- On June 26, 2012, the District sold \$3,620,000 General Obligation Refunding Bonds to perform a crossover advance refunding of the 2005 Bonds. Certain proceeds of the Refunding Bonds will be used to purchase U.S. Treasury Obligations and placed into an escrow. The escrow will be used to A) redeem on May 1, 2014 the 2005 Bonds due on or after May 1, 2015, at par, and B) pay the interest due on the Refunding Bonds through May 1, 2014. The sale of the Refunding Bonds will result in an interest savings of \$335,728.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 2,777,785	177,360	2,955,145
Receivables:			
Property tax:			
Delinquent	42,041	0	42,041
Succeeding year	2,850,230	0	2,850,230
Income surtax	293,303	0	293,303
Accounts	3,503	57	3,560
Due from other governments	427,146	0	427,146
Inventories	0	10,225	10,225
Capital assets, net of accumulated depreciation	9,337,707	92,538	9,430,245
Total assets	15,731,715	280,180	16,011,895
Liabilities			
Accounts payable	153,556	0	153,556
Salaries and benefits payable	978,395	29,902	1,008,297
Deposits payable	36,350	0	36,350
Accrued interest payable	29,342	0	29,342
Deferred revenue:			
Succeeding year property tax	2,850,230	0	2,850,230
Unearned revenue	0	7,649	7,649
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	235,000	0	235,000
Energy loan notes	62,469	0	62,469
Capital loan notes	100,000	0	100,000
Early retirement	97,198	0	97,198
Compensated absences	37,904	0	37,904
Portion due after one year:			
General obligation bonds	3,715,000	0	3,715,000
Energy loan notes	480,531	0	480,531
Capital loan notes	215,000	0	215,000
Early retirement	229,097	0	229,097
Net OPEB liability	243,557	4,920	248,477
Total liabilities	9,463,629	42,471	9,506,100
Net Assets			
Invested in capital assets, net of related debt	4,533,074	92,538	4,625,612
Restricted for:			
Categorical funding	255,613	0	255,613
Debt service	4,305	0	4,305
Student activities	117,846	0	117,846
Public education and recreation levy	32,734	0	32,734
School infrastructure	400,783	0	400,783
Physical plant and equipment levy	16,837	0	16,837
Unrestricted	906,894	145,171	1,052,065
Total net assets	\$ 6,268,086	237,709	6,505,795

SEE NOTES TO FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Govern- mental Activities	Business- Type Activities	Total
		for Services	and Restricted Interest			
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 3,453,970	1,320,329	364,055	(1,769,586)	0	(1,769,586)
Special	1,166,313	479,385	99,505	(587,423)	0	(587,423)
Other	911,550	187,853	148,025	(575,672)	0	(575,672)
	<u>5,531,833</u>	<u>1,987,567</u>	<u>611,585</u>	<u>(2,932,681)</u>	<u>0</u>	<u>(2,932,681)</u>
Support services:						
Student	324,901	0	20,791	(304,110)	0	(304,110)
Instructional staff	322,304	0	29,497	(292,807)	0	(292,807)
Administration	901,559	0	0	(901,559)	0	(901,559)
Operation and maintenance of plant	989,798	0	0	(989,798)	0	(989,798)
Transportation services	603,425	2,178	6,931	(594,316)	0	(594,316)
	<u>3,141,987</u>	<u>2,178</u>	<u>57,219</u>	<u>(3,082,590)</u>	<u>0</u>	<u>(3,082,590)</u>
Non-instructional programs:						
Community service operations	5,268	0	0	(5,268)	0	(5,268)
Long-term debt interest	200,020	0	0	(200,020)	0	(200,020)
Other expenses:						
AEA flowthrough	282,484	0	282,484	0	0	0
Depreciation(unallocated)*	242,055	0	0	(242,055)	0	(242,055)
	<u>524,539</u>	<u>0</u>	<u>282,484</u>	<u>(242,055)</u>	<u>0</u>	<u>(242,055)</u>
Total governmental activities	9,403,647	1,989,745	951,288	(6,462,614)	0	(6,462,614)
Business Type activities:						
Support services:						
Administration	15,504	0	0	0	(15,504)	(15,504)
Operation and maintenance of plant	5,807	0	0	0	(5,807)	(5,807)
Total support services	<u>21,311</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(21,311)</u>	<u>(21,311)</u>
Non-instructional programs:						
Nutrition services	384,425	193,939	224,734	0	34,248	34,248
Total business type activities	<u>405,736</u>	<u>193,939</u>	<u>224,734</u>	<u>0</u>	<u>12,937</u>	<u>12,937</u>
Total	<u>\$ 9,809,383</u>	<u>2,183,684</u>	<u>1,176,022</u>	<u>(6,462,614)</u>	<u>12,937</u>	<u>(6,449,677)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 2,526,230	0	2,526,230
Capital outlay				214,471	0	214,471
Debt service				186,395	0	186,395
Income surtax				307,895	0	307,895
Statewide sales, services and use tax				505,488	0	505,488
Non specific program federal funding				48,907	0	48,907
Unrestricted state grants				3,195,030	0	3,195,030
Unrestricted investment earnings				17,071	933	18,004
Other				100,445	815	101,260
Total general revenues				<u>7,101,932</u>	<u>1,748</u>	<u>7,103,680</u>
Changes in net assets				639,318	14,685	654,003
Net assets beginning of year				<u>5,628,768</u>	<u>223,024</u>	<u>5,851,792</u>
Net assets end of year				<u>\$ 6,268,086</u>	<u>237,709</u>	<u>6,505,795</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Capital Projects	Total Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 2,060,305	443,470	274,010	2,777,785
Receivables:				
Property tax				
Delinquent	33,065	2,714	6,262	42,041
Succeeding year	2,159,076	196,967	494,187	2,850,230
Income surtax	293,303	0	0	293,303
Accounts	136	3,367	0	3,503
Due from other funds	0	80,117	0	80,117
Due from other governments	375,244	51,622	280	427,146
Total assets	\$ 4,921,129	778,257	774,739	6,474,125
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 0	80,117	0	80,117
Accounts payable	71,945	80,186	1,425	153,556
Salaries and benefits payable	977,232	0	1,163	978,395
Deposits payable	0	0	36,350	36,350
Deferred revenue:				
Succeeding year property tax	2,159,076	196,967	494,187	2,850,230
Income surtax	293,303	0	0	293,303
Total liabilities	3,501,556	357,270	533,125	4,391,951
Fund balances:				
Restricted for:				
Categorical funding	255,613	0	0	255,613
Debt service	0	0	4,305	4,305
Management levy purposes	0	0	86,729	86,729
Student activities	0	0	117,846	117,846
Public education and recreation levy	0	0	32,734	32,734
Construction	0	3,367	0	3,367
School infrastructure	0	400,783	0	400,783
Physical plant and equipment	0	16,837	0	16,837
Assigned	7,636	0	0	7,636
Unassigned	1,156,324	0	0	1,156,324
Total fund balances	1,419,573	420,987	241,614	2,082,174
Total liabilities and fund balances	\$ 4,921,129	778,257	774,739	6,474,125

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2012

Total fund balances of governmental funds(page 22)	\$ 2,082,174
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,337,707
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	293,303
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(29,342)
Long-term liabilities, including compensated absences, general obligation bonds, early retirement, energy loan notes, capital loan notes, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,415,756)</u>
Net assets of governmental activities(page 20)	<u><u>\$ 6,268,086</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,627,297	694,449	436,043	3,757,789
Tuition	1,774,798	0	0	1,774,798
Other	144,041	7,708	185,639	337,388
State sources	3,956,939	14,022	233	3,971,194
Federal sources	219,106	0	0	219,106
Total revenues	<u>8,722,181</u>	<u>716,179</u>	<u>621,915</u>	<u>10,060,275</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,316,692	12,000	139,122	3,467,814
Special	1,166,313	0	0	1,166,313
Other	755,694	0	155,856	911,550
	<u>5,238,699</u>	<u>12,000</u>	<u>294,978</u>	<u>5,545,677</u>
Support services:				
Student	317,286	0	925	318,211
Instructional staff	276,723	40,942	1,289	318,954
Administration	899,303	0	12,383	911,686
Operation and maintenance of plant	840,067	9,526	59,493	909,086
Transportation	474,327	135,033	27,274	636,634
	<u>2,807,706</u>	<u>185,501</u>	<u>101,364</u>	<u>3,094,571</u>
Non-instructional programs:				
Community service operations	846	0	4,422	5,268
Capital outlay	<u>0</u>	<u>462,564</u>	<u>1,774</u>	<u>464,338</u>
Long-term debt:				
Principal	0	0	374,000	374,000
Interest and fiscal charges	5,460	0	196,878	202,338
	<u>5,460</u>	<u>0</u>	<u>570,878</u>	<u>576,338</u>
Other expenditures:				
AEA flowthrough	282,484	0	0	282,484
TOTAL EXPENDITURES	<u>8,335,195</u>	<u>660,065</u>	<u>973,416</u>	<u>9,968,676</u>
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	386,986	56,114	(351,501)	91,599
OTHER FINANCING SOURCES(USES):				
Transfer in	9,816	374,657	382,931	767,404
Transfer out	(329,460)	(428,128)	(9,816)	(767,404)
Energy loan note proceeds	273,000	0	0	273,000
TOTAL OTHER FINANCING SOURCES(USES)	<u>(46,644)</u>	<u>(53,471)</u>	<u>373,115</u>	<u>273,000</u>
Net change in fund balances	340,342	2,643	21,614	364,599
Fund balance beginning of year	<u>1,079,231</u>	<u>418,344</u>	<u>220,000</u>	<u>1,717,575</u>
Fund balance end of year	<u>\$ 1,419,573</u>	<u>420,987</u>	<u>241,614</u>	<u>2,082,174</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2012

Net change in fund balances - total governmental funds(page 24) \$ 364,599

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

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

Capital outlays	\$ 590,723	
Depreciation expense	(440,333)	150,390

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

Issued	\$ (273,000)	
Repaid	374,000	101,000

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (17,310)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 2,318

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

Early retirement	\$ 129,021	
Compensated absences	20,630	
Other postemployment benefits	(111,330)	38,321

Changes in net assets of governmental activities(page 21) \$ 639,318

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2012

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 177,360
Accounts receivable	57
Inventories	10,225
Capital assets, net of accumulated depreciation	92,538
Total assets	<u>280,180</u>
Liabilities	
Salaries and benefits payable	29,902
Unearned revenue	7,649
Net OPEB liability	4,920
Total liabilities	<u>42,471</u>
Net Assets	
Invested in capital assets	92,538
Unrestricted	145,171
Total net assets	<u>\$ 237,709</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 193,939
Miscellaneous	815
TOTAL OPERATING REVENUES	194,754
OPERATING EXPENSES:	
Support services:	
Administration services:	
Salaries	12,325
Benefits	1,949
Services	1,230
	15,504
Operation and maintenance of plant services:	
Services	5,807
Total support services	21,311
Non-instructional programs:	
Food service operations:	
Salaries	156,020
Benefits	42,765
Services	254
Supplies	171,941
Depreciation	13,445
Total non-instructional programs	384,425
TOTAL OPERATING EXPENSES	405,736
OPERATING LOSS	(210,982)
NON-OPERATING REVENUES:	
State sources	4,577
Federal sources	220,157
Interest income	933
TOTAL NON-OPERATING REVENUES	225,667
Change in net assets	14,685
Net assets beginning of year	223,024
Net assets end of year	\$ 237,709

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 195,096
Cash received from miscellaneous	815
Cash payments to employees for services	(213,385)
Cash payments to suppliers for goods or services	(154,740)
Net cash used in operating activities	(172,214)
Cash flows from non-capital financing activities:	
State grants received	4,577
Federal grants received	199,415
Net cash provided by non-capital financing activities	203,992
Cash flows from capital and related financing activities:	
Purchase of capital assets	(1,202)
Cash flows from investing activities:	
Interest on investments	933
Net increase in cash and cash equivalents	31,509
Cash and cash equivalents at beginning of year	145,851
Cash and cash equivalents at end of year	\$ 177,360
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (210,982)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	20,742
Depreciation	13,445
Decrease in inventories	3,750
Increase in accounts receivable	(57)
Decrease in salaries and benefits payable	(2,575)
Increase in unearned revenue	1,214
Increase in other postemployment benefits	2,249
Net cash used in operating activities	\$ (172,214)

During the year ended June 30, 2012, the District received Federal commodities valued at \$20,742.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Assets	
Cash and pooled investments	\$ 35,765
Liabilities	0
Net assets	
Restricted for scholarships	\$ 35,765

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest income	\$ 342
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	518
Change in net assets	(176)
Net assets beginning of year	35,941
Net assets end of year	\$ 35,765

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Unspent energy loan note proceeds have been added to the invested in capital assets, net of related debt.

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

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

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

Asset Class	Amount
Land	\$ 1
Buildings	1,000
Land improvements	1,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-12 years

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

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

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not been served. Lunch account balances will be reimbursed or served lunches. Revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

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

Assigned - Amounts are not available for appropriation but are set aside for a specific purpose. The assigned balances are for specific purposes at the Middle School and High School.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2012 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2012 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$208,765 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Standard & Poor's Financial Services.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
	Capital Projects:	
Capital Projects:	Statewide Sales,	
Other Capital Projects	Services, and Use Tax	\$ 80,117

The Capital Projects: Statewide Sales, Services and Use Tax Fund is paying the Capital Projects: Other Capital Projects Fund for construction expenses.

(4) Transfers

The detail of transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 61,920
Debt Service	Capital Projects: Physical Plant and Equipment Levy	109,687
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	211,324
Capital Projects: Other Capital Projects	General	267,540
Capital Projects: Other Capital Projects	Capital Projects: Statewide Sales, Services and Use Tax	107,117
General Fund	Student Activity Fund	1,191
General Fund	Management Fund	8,625
Total		\$ 767,404

The transfer from the General Fund to the Debt Service Fund was for repayment of the District's energy loan note indebtedness.

The transfer from the Capital Projects: Physical Plant and Equipment Levy to the Debt Service Fund was for repayment of capital loan note indebtedness.

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax to the Debt Service Fund was for debt relief on the District's general obligation bond indebtedness.

The transfer from General Fund to the Capital Projects: Other Capital Projects Fund was to move proceeds of the energy loan notes issued during the year.

The transfer from Capital Projects: Statewide Sales, Services and Use Tax Fund to the Capital Projects: Other Capital Projects Fund was for costs associated with the District's HVAC project.

The transfer from the Student Activity Fund to the General Fund was to close the Middle School Art account in the Student Activity Fund.

The transfer from the Management Fund to the General Fund was for deductibles paid by the General Fund which could have been paid from the Management Fund.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 120,725	0	0	120,725
Construction in progress	0	377,348	0	377,348
Total capital assets not being depreciated	<u>120,725</u>	<u>377,348</u>	<u>0</u>	<u>498,073</u>
Capital assets being depreciated:				
Buildings	11,247,662	10,837	0	11,258,499
Land improvements	467,267	2,240	0	469,507
Machinery and equipment	2,442,864	200,298	130,872	2,512,290
Total capital assets being depreciated	<u>14,157,793</u>	<u>213,375</u>	<u>130,872</u>	<u>14,240,296</u>
Less accumulated depreciation for:				
Buildings	2,886,024	225,836	0	3,111,860
Land improvements	217,447	16,219	0	233,666
Machinery and equipment	1,987,730	198,278	130,872	2,055,136
Total accumulated depreciation	<u>5,091,201</u>	<u>440,333</u>	<u>130,872</u>	<u>5,400,662</u>
Total capital assets being depreciated, net	<u>9,066,592</u>	<u>(226,958)</u>	<u>0</u>	<u>8,839,634</u>
Governmental activities capital assets, net	<u>\$ 9,187,317</u>	<u>150,390</u>	<u>0</u>	<u>9,337,707</u>
Business type activities:				
Machinery and equipment	\$ 251,802	1,202	2,454	250,550
Less accumulated depreciation	147,021	13,445	2,454	158,012
Business type activities capital assets, net	<u>\$ 104,781</u>	<u>(12,243)</u>	<u>0</u>	<u>92,538</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 79,821
Support services:		
Operation and maintenance of plant		10,649
Transportation		107,808
		<u>198,278</u>
Unallocated depreciation		<u>242,055</u>
		<u>\$ 440,333</u>
Business type activities:		
Food service operations		<u>\$ 13,445</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,180,000	0	230,000	3,950,000	235,000
Energy loan notes	319,000	273,000	49,000	543,000	62,469
Capital loan notes	410,000	0	95,000	315,000	100,000
Compensated absences	58,534	37,904	58,534	37,904	37,904
Early retirement	455,316	0	129,021	326,295	97,198
Net OPEB liability	132,227	111,330	0	243,557	0
Total	<u>\$ 5,555,077</u>	<u>422,234</u>	<u>561,555</u>	<u>5,415,756</u>	<u>532,571</u>
Business type activities:					
Net OPEB liability	\$ 2,671	2,249	0	4,920	0

General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue July 1, 2005			
	Interest Rates	Principal	Interest	Total
2013	4.00	% \$ 235,000	158,745	393,745
2014	4.00	245,000	148,464	393,464
2015	4.00	255,000	137,745	392,745
2016	4.00	265,000	128,565	393,565
2017	4.00	280,000	118,760	398,760
2018-2022	4.00-4.15	1,570,000	421,902	1,991,902
2023-2025	4.20	1,100,000	92,731	1,192,731
Total		<u>\$ 3,950,000</u>	<u>1,206,912</u>	<u>5,156,912</u>

Energy Loan Notes

Details of the District's June 30, 2012 energy loan notes indebtedness, which will be paid from the General Fund, are as follows:

Year Ending June 30,	Energy loan notes dated February 1, 2007				
	Interest Rates		Principal	Interest	Total
2013	4.05	% \$	50,000	10,935	60,935
2014	4.05		52,000	8,910	60,910
2015	4.05		54,000	6,804	60,804
2016	4.05		56,000	4,617	60,617
2017	4.05		58,000	2,349	60,349
Subtotal			\$ 270,000	33,615	303,615

Year Ending June 30,	Energy loan notes Issue March 1, 2012				
	Interest Rates		Principal	Interest	Total
2013	1.00		12,469	2,006	14,475
2014	1.00		16,809	2,528	19,337
2015	1.00		17,020	2,359	19,379
2016	1.00		17,234	2,188	19,422
2017	1.00		17,450	2,015	19,465
2018-2022	1.00		90,599	7,398	97,997
2023-2027	1.00		96,439	2,725	99,164
2028	1.00		4,980	9	4,989
Subtotal			\$ 273,000	21,228	294,228
Total			\$ 543,000	54,843	597,843

Capital Loan Notes

Details of the District's June 30, 2012 capital loan notes indebtedness, which will be paid from the Capital Projects: Physical Plant and Equipment Levy, is as follows:

Year Ending June 30,	Capital loan notes dated April 1, 2009				
	Interest Rates		Principal	Interest	Total
2013	3.50	% \$	100,000	11,838	111,838
2014	3.75		105,000	8,337	113,337
2015	4.00		110,000	4,400	114,400
Total			\$ 315,000	24,575	339,575

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The retiree may maintain their membership in the group health insurance. Retirees are paid \$500 per month for single health insurance. The employee shall not be on disability leave at the time of retirement. Early retirement benefits paid during the year ended June 30, 2012, totaled \$129,021. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$428,627, \$364,259 and \$340,275, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

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

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

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

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

The following table shows the components of the District's OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 185,094
Interest on net OPEB obligation	3,372
Adjustment to annual required contribution	(13,609)
Annual OPEB cost	<u>174,857</u>
Contributions made	(61,278)
Increase in net OPEB obligation	<u>113,579</u>
Net OPEB obligation beginning of year	<u>134,898</u>
Net OPEB obligation end of year	<u>\$ 248,477</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$61,278 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 160,844	57.50%	\$ 68,370
2011	161,193	58.73%	134,898
2012	174,857	35.04%	248,477

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1,419,309, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,419,309. The covered payroll (annual payroll of active employees covered by the plan) was \$3,473,174, and the ratio of the UAAL to covered payroll was 40.86%. As of June 30, 2012 there were no trust fund assets.

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

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

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

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

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

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$282,484 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2012 are as follows:

Program	Amount
At-Risk supplemental weighting	\$ 14,603
Market factor	4,965
Market factor incentives	4,097
Home school assistance program	29,073
Professional development	18,978
Dropout and dropout prevention	92,925
Four year-old preschool	79,657
Professional development for model core curriculum	11,315
Total	\$ 255,613

(12) Construction Commitment

The District has entered into a contract totaling \$423,844 for construction of a High School Heat Pump Project. As of June 30, 2012, costs of \$366,231 had been incurred against the contract. The balance of \$57,613 remaining at June 30, 2012 will be paid as work on the project progress.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Actual	Fund Actual		Original	Final	
Revenues:						
Local sources	\$ 5,869,975	195,687	6,065,662	5,763,531	5,763,531	302,131
Intermediate sources	0	0	0	2,000	2,000	(2,000)
State sources	3,971,194	4,577	3,975,771	4,101,764	4,101,764	(125,993)
Federal sources	219,106	220,157	439,263	376,900	376,900	62,363
Total revenues	10,060,275	420,421	10,480,696	10,244,195	10,244,195	236,501
Expenditures/Expenses:						
Instruction	5,545,677	0	5,545,677	5,680,000	5,680,000	134,323
Support services	3,094,571	21,311	3,115,882	3,172,755	3,300,000	184,118
Non-instructional programs	5,268	384,425	389,693	381,000	408,000	18,307
Other expenditures	1,323,160	0	1,323,160	1,014,143	1,400,000	76,840
Total expenditures/expenses	9,968,676	405,736	10,374,412	10,247,898	10,788,000	413,588
Excess(Deficiency) of revenues over(under) expenditures/expenses	91,599	14,685	106,284	(3,703)	(543,805)	650,089
Other financing sources, net	273,000	0	273,000	0	0	273,000
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	364,599	14,685	379,284	(3,703)	(543,805)	923,089
Balance beginning of year	1,717,575	223,024	2,011,424	1,617,480	1,617,480	393,944
Balance end of year	\$ 2,082,174	237,709	2,390,708	1,613,777	1,073,675	1,317,033

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2012

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2012, the District adopted one budget amendment increasing budgeted expenditures by \$540,102.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 1,532,553	\$ 1,532,553	0.00%	\$ 4,057,796	37.77%
2011	July 1, 2009	0	1,417,884	1,417,884	0.00%	4,184,344	33.89%
2012	July 1, 2009	0	1,419,309	1,419,309	0.00%	3,473,174	40.86%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Public Education and Recreation Levy	Total		
Assets						
Cash and pooled investments	\$ 83,865	119,806	32,367	236,038	37,972	274,010
Receivables:						
Property tax:						
Delinquent	3,219	0	366	3,585	2,677	6,262
Succeeding year	240,000	0	26,590	266,590	227,597	494,187
Due from other governments	8	265	1	274	6	280
Total assets	\$ 327,092	120,071	59,324	506,487	268,252	774,739
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 363	1,062	0	1,425	0	1,425
Salaries and benefits payable	0	1,163	0	1,163	0	1,163
Deposits payable	0	0	0	0	36,350	36,350
Deferred revenue:						
Succeeding year property tax	240,000	0	26,590	266,590	227,597	494,187
Total liabilities	240,363	2,225	26,590	269,178	263,947	533,125
Fund balances:						
Restricted for:						
Debt service	0	0	0	0	4,305	4,305
Management levy	86,729	0	0	86,729	0	86,729
Student activity	0	117,846	0	117,846	0	117,846
Public education and recreation levy	0	0	32,734	32,734	0	32,734
Total fund balances	86,729	117,846	32,734	237,309	4,305	241,614
Total liabilities and fund balances	\$ 327,092	120,071	59,324	506,487	268,252	774,739

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2012

	Special Revenue Funds					Total
	Public			Total Special Revenue	Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Education and Recreation Levy			
REVENUES:						
Local sources:						
Local tax	\$ 224,138	0	25,510	249,648	186,395	436,043
Other	8,859	176,626	72	185,557	82	185,639
State sources	120	0	13	133	100	233
TOTAL REVENUES	233,117	176,626	25,595	435,338	186,577	621,915
EXPENDITURES:						
Current:						
Instruction:						
Regular	139,122	0	0	139,122	0	139,122
Other	0	155,856	0	155,856	0	155,856
Support services:						
Student	925	0	0	925	0	925
Instructional staff	420	869	0	1,289	0	1,289
Administration	7,462	4,921	0	12,383	0	12,383
Operation and maintenance of plant	51,128	7,425	940	59,493	0	59,493
Transportation	27,274	0	0	27,274	0	27,274
Non-instructional programs:						
Community service operations	0	0	4,422	4,422	0	4,422
Capital outlay	0	0	1,774	1,774	0	1,774
Long-term debt:						
Principal	0	0	0	0	374,000	374,000
Interest and fiscal charges	0	0	0	0	196,878	196,878
TOTAL EXPENDITURES	226,331	169,071	7,136	402,538	570,878	973,416
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	6,786	7,555	18,459	32,800	(384,301)	(351,501)
OTHER FINANCING SOURCES(USES):						
Transfer in	0	0	0	0	382,931	382,931
Transfer out	(8,625)	(1,191)	0	(9,816)	0	(9,816)
TOTAL OTHER FINANCING SOURCES(USES)	(8,625)	(1,191)	0	(9,816)	382,931	373,115
NET CHANGE IN FUND BALANCES	(1,839)	6,364	18,459	22,984	(1,370)	21,614
FUND BALANCE BEGINNING OF YEAR	88,568	111,482	14,275	214,325	5,675	220,000
FUND BALANCE END OF YEAR	\$ 86,729	117,846	32,734	237,309	4,305	241,614

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2012

	Capital Projects			
	Physical			Total
	Plant and	Other	Statewide	
	Equipment	Capital	Sales, Services	
Levy	Projects	and Use Tax		
Assets				
Cash and pooled investments	\$ 14,117	69	429,284	443,470
Receivables:				
Property tax:				
Delinquent	2,714	0	0	2,714
Succeeding year	196,967	0	0	196,967
Accounts	0	3,367	0	3,367
Due from other funds	0	80,117	0	80,117
Due from other governments	6	0	51,616	51,622
Total assets	\$ 213,804	83,553	480,900	778,257
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 0	0	80,117	80,117
Accounts payable	0	80,186	0	80,186
Deferred revenue:				
Succeeding year property tax	196,967	0	0	196,967
Total liabilities	196,967	80,186	80,117	357,270
Fund balances:				
Restricted for:				
Construction	0	3,367	0	3,367
School infrastructure	0	0	400,783	400,783
Physical plant and equipment	16,837	0	0	16,837
Total fund balances	16,837	3,367	400,783	420,987
Total liabilities and fund balances	\$ 213,804	83,553	480,900	778,257

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2012

	Capital Projects			
	Physical			Total
	Plant and Equipment Levy	Other Capital Projects	Statewide Sales, Services and Use Tax	
REVENUES:				
Local sources:				
Local tax	\$ 188,961	0	505,488	694,449
Other	164	6,058	1,486	7,708
State sources	101	0	13,921	14,022
TOTAL REVENUES	189,226	6,058	520,895	716,179
EXPENDITURES:				
Current:				
Instruction:				
Regular	0	0	12,000	12,000
Support services:				
Instructional staff	40,942	0	0	40,942
Operation and maintenance of plant	9,526	0		9,526
Transportation	18,202	0	116,831	135,033
Capital outlay	58,758	377,348	26,458	462,564
TOTAL EXPENDITURES	127,428	377,348	155,289	660,065
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	61,798	(371,290)	365,606	56,114
OTHER FINANCING SOURCES(USES):				
Transfer in	0	374,657	0	374,657
Transfer out	(109,687)	0	(318,441)	(428,128)
TOTAL OTHER FINANCING SOURCES(USES)	(109,687)	374,657	(318,441)	(53,471)
NET CHANGE IN FUND BALANCES	(47,889)	3,367	47,165	2,643
FUND BALANCE BEGINNING OF YEAR	64,726	0	353,618	418,344
FUND BALANCE END OF YEAR	\$ 16,837	3,367	400,783	420,987

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Drama	\$ 9,900	555	5,754	51	4,752
HS Vocal	3,368	3,009	4,993	16	1,400
Spec MS Vocal	1,918	252	976	11	1,205
HS Band	4,440	2,674	6,383	21	752
Band Fundraising	681	15,428	8,798	45	7,356
Spec MS Band	70	2,472	5,007	3,333	868
MS Band Resale	208	245	256	0	197
Athletics	18,712	12,331	23,837	20,365	27,571
Athletic Uniforms	13,232	0	3,423	2,723	12,532
Spec MS Athletics	12,288	0	2,654	(395)	9,239
Cross Country	0	0	745	745	0
Golf	0	1,586	3,206	1,620	0
Boys Basketball	0	5,241	2,664	(2,364)	213
Football	0	17,085	10,355	(6,730)	0
Baseball	0	6,490	6,682	392	200
Boys Track	0	0	1,783	1,783	0
Wrestling	0	10,165	6,155	(4,010)	0
Alumni Basketball Uniforms	581	218	0	5	804
Girls BB	0	6,346	2,616	(3,543)	187
Volleyball	0	7,058	4,008	(2,700)	350
Soccer	0	0	935	935	0
Softball	0	9,707	5,756	(3,436)	515
Girls Track	0	0	2,303	2,303	0
Interest	0	874	0	(874)	0
Middle School Fine Arts	13,355	0	0	25	13,380
MS Yearbook	582	2,397	2,394	12	597
Spec MS Art	1,191	0	0	(1,191)	0
MS Activities	389	224	224	3	392
High School Fine Arts	715	0	0	4,420	5,135
Class of 2012	4,641	0	1,389	28	3,280
Class of 2013	0	11,472	8,233	32	3,271
Class of 2015	52	0	0	0	52
HS Yearbook	5,838	8,971	10,178	52	4,683
Spec HS Art	1,693	201	0	12	1,906
Silk Screening	457	4,208	4,411	0	254
Cheerleaders	3,528	1,495	2,295	12	2,740
FFA	11,269	8,670	7,407	92	12,624
National Honor Society	1,043	50	145	7	955
HS Student Council	1,331	877	2,025	5	188
Concession	0	36,325	21,081	(14,996)	248
Total	\$ 111,482	176,626	169,071	(1,191)	117,846

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
 JUNE 30, 2012

	Private Purpose Trust - Scholarship		
	Blackburn Scholarship	Dunham Scholarship	Total
Assets			
Cash and pooled investments	\$ 31,879	3,886	35,765
Liabilities			
	0	0	0
Net assets			
Restricted for scholarships	\$ 31,879	3,886	35,765

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust - Scholarship		
	Blackburn Scholarship	Dunham Scholarship	Total
Additions:			
Local sources:			
Interest income	\$ 318	24	342
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	318	200	518
Changes in net assets	0	(176)	(176)
Net assets beginning of year	31,879	4,062	35,941
Net assets end of year	\$ 31,879	3,886	35,765

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 3,757,789	3,716,260	3,329,046	3,233,021	3,084,414	3,146,783	3,159,955	3,202,645	2,778,213
Tuition	1,774,798	1,524,337	1,372,977	1,287,996	1,276,568	1,249,157	1,084,449	815,148	655,870
Other	337,388	311,573	289,867	324,444	487,198	492,617	524,229	279,311	295,208
Intermediate sources	0	2,937	10,414	0	0	0	0	0	0
State sources	3,971,194	3,898,484	3,517,058	3,821,565	3,846,326	3,448,468	3,581,775	3,159,379	3,052,978
Federal sources	219,106	406,297	812,903	274,774	252,322	400,479	228,858	272,939	190,579
Total	<u>\$ 10,060,275</u>	<u>9,859,888</u>	<u>9,332,265</u>	<u>8,941,800</u>	<u>8,946,828</u>	<u>8,737,504</u>	<u>8,579,266</u>	<u>7,729,422</u>	<u>6,972,848</u>
Expenditures:									
Current:									
Instruction:									
Regular	\$ 3,467,814	3,318,567	3,254,908	3,154,199	3,263,097	3,070,843	2,738,703	2,575,286	2,704,570
Special	1,166,313	1,148,872	1,166,517	1,246,523	1,106,333	1,034,926	889,705	821,571	946,698
Other	911,550	900,022	922,263	883,985	756,644	789,754	722,381	677,104	608,756
Support services:									
Student	318,211	307,470	289,971	283,357	280,838	278,505	253,518	250,249	239,395
Instructional staff	318,954	350,709	323,819	392,755	289,776	269,037	328,213	296,343	256,506
Administration	911,686	1,018,387	866,715	828,893	826,278	800,010	800,782	779,341	674,193
Operation and maintenance of plant	909,086	826,917	806,918	853,631	943,058	805,329	944,385	664,386	664,676
Transportation	636,634	583,384	604,605	475,124	724,232	468,739	468,872	503,504	470,553
Central	0	0	0	0	0	0	0	0	1,396
Non-instructional programs:									
Food service	0	0	0	2,527	3,892	3,635	2,354	2,354	3,364
Community service	5,268	4,812	4,861	5,131	5,473	5,738	3,470	10,904	20,289
Capital outlay	464,338	101,988	596,714	848,284	1,094,240	4,656,475	1,289,281	86,941	156,383
Long-term debt:									
Principal	374,000	357,000	345,000	244,000	230,000	185,000	190,000	0	0
Interest and fiscal charges	202,338	210,852	225,948	228,861	232,517	213,226	182,405	0	0
Other expenditures:									
AEA flow-through	282,484	311,385	308,807	251,378	248,491	231,586	218,952	217,704	221,438
Total	<u>\$ 9,968,676</u>	<u>9,440,365</u>	<u>9,717,046</u>	<u>9,698,648</u>	<u>10,004,869</u>	<u>12,812,803</u>	<u>9,033,021</u>	<u>6,885,687</u>	<u>6,968,217</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
U.S. DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	\$ 38,957
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	181,200 *
			<u>220,157</u>
U.S. DEPARTMENT OF ENERGY:			
IOWA DEPARTMENT OF ADMINISTRATIVE SERVICES:			
STATE ENERGY PROGRAM	81.041	FY12	<u>273,000</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 12	74,707
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.389	FY 11	5,102
			<u>79,809</u>
ADVANCED PLACEMENT PROGRAM	84.330	FY 12	<u>39</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 12	<u>23,137</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 12	<u>5,759</u>
ARRA - EDUCATION FOR HOMELESS CHILDREN AND YOUTH	84.387	FY 11	<u>12,254</u>
EDUCATION JOB FUNDS	84.410	FY 11	46,757
EDUCATION JOB FUNDS	84.410	FY 12	2,150
			<u>48,907</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 12	<u>37,544</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	<u>11,616</u>
TOTAL			<u>\$ 712,222</u>

* - Includes \$20,742 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
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117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of the
East Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 15, 2013. 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

The management of East Marshall Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered East Marshall Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Marshall Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Marshall Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Finding and Questioned Costs as item II-A-12 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 attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-12 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

East Marshall Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit East Marshall Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Marshall Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 15, 2013

NOLTE, CORNMAN & JOHNSON P.C.

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(a professional corporation)

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

To the Board of Education of
East Marshall Community School District

Compliance

We have audited East Marshall Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of East Marshall Community School District's major federal programs for the year ended June 30, 2012. East Marshall Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of East Marshall Community School District's management. Our responsibility is to express an opinion on East Marshall Community School District's compliance based on our audit.

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

In our opinion, East Marshall Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of East Marshall Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered East Marshall Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of East Marshall Community School District's internal control over compliance.

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

East Marshall Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit East Marshall Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of East Marshall Community School District and other parties to whom East Marshall Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



NOLTE, CORNMAN & JOHNSON, P.C.

January 15, 2013

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 81.041 - State Energy Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Marshall Community School District did not qualify as a low-risk auditee.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

II-B-12 Commissions - We noted during our audit that Pepsi commissions were being receipted into the Athletics account in the Student Activity Fund.

Recommendation - The Code of Iowa does not specifically identify the fund where commissions shall be recorded. In the absence of a specific fund, the commissions should be receipted into the General Fund.

Response - We will receipt Pepsi commission revenues in the General Fund.

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2012
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA 81.041: State Energy Program
Federal Award Year: 2012
U.S. Department of Energy
Passed through the Iowa Department of Administrative Services

III-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District disbursements for the year ended June 30, 2012, did not exceed the amount budgeted.

IV-B-12 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the student council account in the Student Activity Fund to be given as prizes. Giving gift certificates/cards as prizes does not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

Response - Staff have been notified that purchases of gift cards cannot be made with public funds.

Conclusion - Response accepted.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-12 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students was overstated by two.

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

Response - Our auditors will be contacting the Iowa Department of Education and the Department of Management to resolve this issue.

Conclusion - Response accepted.

IV-H-12 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-12 Deposits and Investments - 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 were noted.

IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-12 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	353,618
Revenues:			
Sales tax revenues	\$	505,488	
Other local revenues		1,486	
School infrastructure supplemental amount		13,921	520,895
			<u>874,513</u>
Expenditures:			
School infrastructure construction		26,458	
Equipment		128,831	
Transfers to other funds:			
Debt service fund		211,324	
Other transfers		107,117	473,730
			<u>473,730</u>
Ending Balance		\$	<u><u>400,783</u></u>

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Debt service levy	\$ 1.12075	\$ 211,324