

EAST UNION 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 Union Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---|--|---------------------|
| Board of Education | | |
| (Before September 2011 Election) | | |
| Lynn Kruse | President | 2011 |
| Shannon Harper | Vice President | 2011 |
| Lois Munden | Board Member | 2011 |
| Kenneth Hagen | Board Member | 2013 |
| Sarah Long | Board Member | 2013 |
| (After September 2011 Election) | | |
| Kenneth Hagen | President | 2013 |
| Jeanna McKinney | Vice President | 2015 |
| Lois Munden | Board Member | 2015 |
| Sarah Long | Board Member | 2013 |
| Brett Weis | Board Member | 2015 |
| School Officials | | |
| Dr. Pam Vogel | Superintendent | 2012 |
| Kay Vaughn | Co-Board Treasurer | 2012 |
| Billie Jo Greene | Business Manager/ Board Secretary & Co-Board Treasurer | 2012 |
| Ahlers and Cooney P.C. | Attorney | 2012 |

EAST UNION COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2013 on our consideration of East Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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 16 and 44 through 46 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 Union Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for eight years ended June 30, 2011 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 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.

March 1, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2012 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,468,972 in fiscal 2011 to \$5,410,504 in fiscal 2012, while General Fund expenditures increased from \$5,109,521 in fiscal 2011 to \$5,418,184 in fiscal 2012. The District's General Fund balance decreased from \$837,636 in fiscal 2011 to \$829,956 in fiscal 2012, a 0.92% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state revenue sources in fiscal 2012. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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

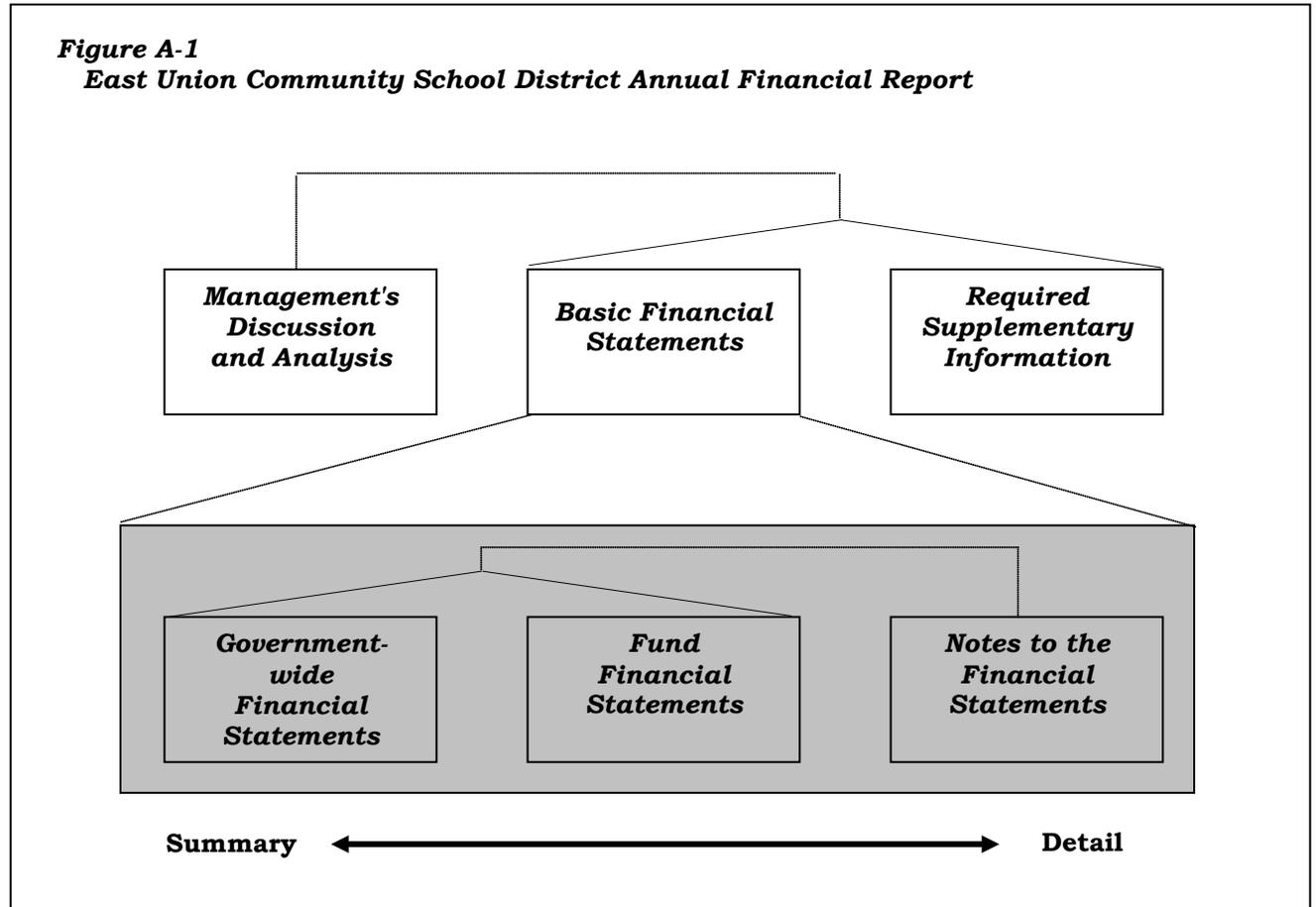


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

| Figure A-2 | | | |
|--|--|--|--|
| Major Features of the Government-wide and Fund Financial Statements | | | |
| | Government-wide Statements | Fund Statements | |
| | | Governmental Funds | Proprietary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses: food services and adult education |
| Required financial statements | <ul style="list-style-type: none"> • 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 fund net assets • Statement of cash flows |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus |
| Type of asset/ liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of inflow/ outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 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 | \$ 4,416,773 | 7,645,130 | 8,575 | 19,398 | 4,425,348 | 7,664,528 | -42.26% |
| Capital assets | 9,387,278 | 6,414,453 | 48,493 | 52,472 | 9,435,771 | 6,466,925 | 45.91% |
| Total assets | <u>13,804,051</u> | <u>14,059,583</u> | <u>57,068</u> | <u>71,870</u> | <u>13,861,119</u> | <u>14,131,453</u> | <u>-1.91%</u> |
| Long-term obligations | 5,271,173 | 5,702,122 | 3,298 | 4,612 | 5,274,471 | 5,706,734 | -7.57% |
| Other liabilities | 2,690,119 | 3,146,088 | 30,037 | 66,618 | 2,720,156 | 3,212,706 | -15.33% |
| Total liabilities | <u>7,961,292</u> | <u>8,848,210</u> | <u>33,335</u> | <u>71,230</u> | <u>7,994,627</u> | <u>8,919,440</u> | <u>-10.37%</u> |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 4,152,692 | 2,546,907 | 48,493 | 52,472 | 4,201,185 | 2,599,379 | 61.62% |
| Restricted | 773,294 | 1,803,592 | - | - | 773,294 | 1,803,592 | -57.12% |
| Unrestricted | 916,773 | 860,874 | (24,760) | (51,832) | 892,013 | 809,042 | 10.26% |
| Total net assets | <u>\$ 5,842,759</u> | <u>5,211,373</u> | <u>23,733</u> | <u>640</u> | <u>5,866,492</u> | <u>5,212,013</u> | <u>12.56%</u> |

The District's combined net assets increased by 12.56% or \$654,479 from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$1,030,298 or 57.12% from the prior year. The decrease was primarily a result of the decrease in the Capital Projects Accounts balance.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$82,971 or 10.26%. This increase was largely due to the decrease in the Capital Projects fund balance.

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

| Figure A-4 | | | | | | | |
|---|----------------------------|------------------|-----------------------------|----------------|-------------------|------------------|-----------------|
| Changes of Net Assets | | | | | | | |
| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-12 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 515,075 | 311,596 | 110,693 | 94,250 | 625,768 | 405,846 | 54.19% |
| Operating grants, contributions and restricted interest | 523,490 | 800,883 | 157,948 | 123,083 | 681,438 | 923,966 | -26.25% |
| Capital grants, contributions and restricted interest | 305,873 | 1,588,340 | 3,642 | - | 309,515 | 1,588,340 | 100.00% |
| General revenues: | | | | | | | |
| Property tax | 2,105,626 | 2,017,113 | - | - | 2,105,626 | 2,017,113 | 4.39% |
| Income surtax | 208,908 | 213,320 | - | - | 208,908 | 213,320 | -2.07% |
| Statewide sales, services and use tax | 479,972 | 432,874 | - | - | 479,972 | 432,874 | 10.88% |
| Unrestricted state grants | 2,388,846 | 2,454,631 | - | - | 2,388,846 | 2,454,631 | -2.68% |
| Nonspecific program federal grants | 105,862 | 51,942 | - | - | 105,862 | 51,942 | 100.00% |
| Unrestricted investment earnings | 11,017 | 36,151 | 9 | 12 | 11,026 | 36,163 | -69.51% |
| Other general revenue | 116,304 | 105,116 | - | 1,254 | 116,304 | 106,370 | 9.34% |
| Total revenues | 6,760,973 | 8,011,966 | 272,292 | 218,599 | 7,033,265 | 8,230,565 | -14.55% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instructional | 3,640,228 | 3,485,662 | - | - | 3,640,228 | 3,485,662 | 4.43% |
| Support services | 1,845,556 | 1,912,375 | 736 | 594 | 1,846,292 | 1,912,969 | -3.49% |
| Non-instructional programs | - | - | 248,463 | 230,613 | 248,463 | 230,613 | 7.74% |
| Other expenses | 643,803 | 556,675 | - | - | 643,803 | 556,675 | 15.65% |
| Total expenses | 6,129,587 | 5,954,712 | 249,199 | 231,207 | 6,378,786 | 6,185,919 | 3.12% |
| Changes in net assets | 631,386 | 2,057,254 | 23,093 | (12,608) | 654,479 | 2,044,646 | -67.99% |
| Net assets beginning of year | 5,211,373 | 3,154,119 | 640 | 13,248 | 5,212,013 | 3,167,367 | 64.55% |
| Net assets end of year | \$ 5,842,759 | 5,211,373 | 23,733 | 640 | 5,866,492 | 5,212,013 | 12.56% |

Property tax, grants, contributions and restricted interest and unrestricted state grants account for 78.74% of governmental activities revenue while charges for service and operation grants, contributions and restricted interest accounted for almost all of business type activities revenue.

The District's total revenues were \$7.03 million, of which approximately \$6.76 million was for governmental activities and approximately \$0.27 was for business type activities.

As shown in figure A-4, the District as a whole experienced a 14.55% decrease in revenues and a 3.12% increase in expenses. The increase in expenses is related to negotiated salaries and benefits payable.

Governmental Activities

Revenues for governmental activities were \$6,760,973 and expenses were \$6,129,587 for the year ended June 30, 2012. The revenues decreased in the governmental activities by \$1,250,993 mainly due to less federal grant revenue received by the District during fiscal year 2012.

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

| | Total Cost of Services | | | Net Cost of Services | | |
|------------------|------------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | 2012 | 2011 | Change 2011-12 | 2012 | 2011 | Change 2011-12 |
| Instruction | \$ 3,640,228 | 3,485,662 | 4.43% | 2,835,145 | 2,622,244 | 8.12% |
| Support services | 1,845,556 | 1,912,375 | -3.49% | 1,490,690 | 284,802 | 423.41% |
| Other expenses | 643,803 | 556,675 | 15.65% | 459,314 | 346,847 | 32.43% |
| Totals | \$ 6,129,587 | 5,954,712 | 2.94% | 4,785,149 | 3,253,893 | 47.06% |

- The cost financed by users of the District's programs was \$515,075.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$829,363.
- The net cost of governmental activities was financed with \$2,105,626 in property tax, \$208,908 in income surtax, \$479,972 in statewide sales, services and use tax, \$2,388,846 in unrestricted state grants, \$105,862 in nonspecific program federal grants, \$11,107 in interest income and \$116,304 in other general revenue.

Business Type Activities

Revenues of the District's business type activities were \$272,292 and expenses were \$249,199. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,546,423 down from last year's ending fund balances of \$4,351,717. The primary reason for the decrease was expenditures for various construction projects during the year ended June 30, 2012.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$837,636 on June 30, 2011 to \$829,956 on June 30, 2012. The fluctuation in the District's General Fund financial position is the product of many factors. Decreased revenues combined with increased expenses resulted in a decrease General Fund balance at June 30, 2012.
- The Capital Projects Fund declined from a balance of \$2,821,847 at the beginning of fiscal year 2011 to \$248,893 at the end of fiscal year 2012. The decline in fund balance resulted mainly from costs associated with the District's Elementary and Playground construction projects.
- The Debt Service Fund balance decreased from \$498,009 at June 30, 2011 to \$272,932 at June 30, 2012. The decrease was mainly due to increased principle and interest payments associated with the District's indebtedness.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$640 at June 30, 2011 to \$23,733 at June 30, 2012, representing a percentage increase of 3,608.28% or \$23,093.

BUDGETARY HIGHLIGHTS

The District's revenues were \$576,854 more than budgeted revenues, a variance of 8.94%. The most significant variances resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$9,435,771, 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 45.91% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$331,608.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|--------------------------|-------------------------|------------------|--------------------------|---------------|------------------|------------------|---------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2011-12 |
| Land | \$ 14,205 | 14,205 | - | - | 14,205 | 14,205 | 0.00% |
| Construction in progress | - | 4,205,774 | - | - | - | 4,205,774 | -100.00% |
| Buildings | 8,778,704 | 1,649,981 | - | - | 8,778,704 | 1,649,981 | 432.05% |
| Land improvements | 326,510 | 343,582 | - | - | 326,510 | 343,582 | -4.97% |
| Machinery and equipment | 267,859 | 200,911 | 48,493 | 52,472 | 316,352 | 253,383 | 24.85% |
| Total | \$ 9,387,278 | 6,414,453 | 48,493 | 52,472 | 9,435,771 | 6,466,925 | 45.91% |

The original cost of the District's capital assets was \$11,942,820. Governmental funds accounted for \$11,846,822 with the remainder of \$95,998 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The buildings category totaled \$1,649,981 at June 30, 2011, compared to \$8,778,704 reported at June 30, 2012. This increase is a due to the new elementary building project being completed and capitalized in the District's capital asset listing during the current year.

Long-Term Debt

At June 30, 2012, the District had long-term debt outstanding of \$5,274,471 in general obligation bonds, revenue bonds, lease obligations, loans payable, compensated absences and OPEB liability (See Figure A-7). Additional detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$3,805,000 at June 30, 2012.

The District had outstanding revenue bonded indebtedness of \$1,200,000 at June 30, 2012.

The District had an outstanding lease obligation of \$94,164 at June 30, 2012.

The District had an outstanding loans payable of \$138,266 at June 30, 2012. Governmental activities account for \$135,422 and Business Type Activities account for \$2,844.

The District had compensated absences payable from the General Fund of \$8,876 as of June 30, 2012.

The District had total Net OPEB liability of \$28,165 at June 30, 2012. Governmental activities account for \$27,711 and Business Type activities account for \$454.

Figure A-7
Outstanding Long-Term Obligations

| | 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 |
| General obligation bonds | \$ 3,805,000 | 3,940,000 | - | - | 3,805,000 | 3,940,000 | -3.43% |
| Revenue bonds | 1,200,000 | 1,595,000 | - | - | 1,200,000 | 1,595,000 | -24.76% |
| Computer lease | 94,164 | 137,592 | - | - | 94,164 | 137,592 | -31.56% |
| Loans payable | 135,422 | - | 2,844 | 4,273 | 138,266 | 4,273 | 3135.81% |
| Compensated absences | 8,876 | 8,816 | - | - | 8,876 | 8,816 | 0.68% |
| Net OPEB liability | 27,711 | 20,714 | 454 | 339 | 28,165 | 21,053 | 33.78% |
| Total | \$ 5,271,173 | 5,702,122 | 3,298 | 4,612 | 5,274,471 | 5,706,734 | -7.57% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and possible enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The District is looking at other financing sources to support the shortfalls from the state.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period which started in fiscal year 2005.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Billie Jo Greene, Business Manager/District Board Secretary/Treasurer, East Union Community School District, 1916 High School Drive, Afton, Iowa, 50830.

BASIC FINANCIAL STATEMENTS

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

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 1,798,311 | 3,679 | 1,801,990 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 40,952 | - | 40,952 |
| Succeeding year | 2,026,379 | - | 2,026,379 |
| Income surtax | 214,822 | - | 214,822 |
| Accounts | 39,368 | 99 | 39,467 |
| Due from other funds | 25,759 | - | 25,759 |
| Due from other governments | 271,182 | - | 271,182 |
| Inventories | - | 4,797 | 4,797 |
| Capital assets, net of accumulated depreciation | 9,387,278 | 48,493 | 9,435,771 |
| Total assets | 13,804,051 | 57,068 | 13,861,119 |
| Liabilities | | | |
| Accounts payable | 479,877 | 114 | 479,991 |
| Contracts payable | 91,083 | - | 91,083 |
| Salaries and benefits payable | 56,305 | 393 | 56,698 |
| Accrued interest payable | 34,591 | - | 34,591 |
| Due to other funds | - | 25,759 | 25,759 |
| Deferred revenue: | | | |
| Succeeding year property tax | 2,026,379 | - | 2,026,379 |
| Other | 1,884 | - | 1,884 |
| Unearned revenue | - | 3,771 | 3,771 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds payable | 140,000 | - | 140,000 |
| Computer lease | 45,820 | - | 45,820 |
| Loans payable | 37,677 | 1,756 | 39,433 |
| Compensated absences | 8,876 | - | 8,876 |
| Portion due after one year: | | | |
| General obligation bonds payable | 3,665,000 | - | 3,665,000 |
| Revenue bonds payable | 1,200,000 | - | 1,200,000 |
| Computer lease | 48,344 | - | 48,344 |
| Loans payable | 97,745 | 1,088 | 98,833 |
| Net OPEB liability | 27,711 | 454 | 28,165 |
| Total liabilities | 7,961,292 | 33,335 | 7,994,627 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 4,152,692 | 48,493 | 4,201,185 |
| Restricted for: | | | |
| Categorical funding | 55,602 | - | 55,602 |
| Debt service | 272,932 | - | 272,932 |
| Management levy purposes | 79,775 | - | 79,775 |
| Student activities | 114,867 | - | 114,867 |
| School infrastructure | 162,324 | - | 162,324 |
| Physical plant and equipment | 87,794 | - | 87,794 |
| Unrestricted | 916,773 | (24,760) | 892,013 |
| Total net assets | \$ 5,842,759 | 23,733 | 5,866,492 |

SEE NOTES TO FINANCIAL STATEMENTS

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

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---------------------------------------|---------------------|-------------------------|--|--|--|-----------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| | | | | | | | |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 2,302,583 | 328,249 | 105,880 | - | (1,868,454) | - | (1,868,454) |
| Special | 484,427 | 25,020 | 21,824 | - | (437,583) | - | (437,583) |
| Other | 853,218 | 114,315 | 209,795 | - | (529,108) | - | (529,108) |
| | <u>3,640,228</u> | <u>467,584</u> | <u>337,499</u> | <u>-</u> | <u>(2,835,145)</u> | <u>-</u> | <u>(2,835,145)</u> |
| Support services: | | | | | | | |
| Student | 54,593 | - | - | - | (54,593) | - | (54,593) |
| Instructional staff | 318,159 | - | - | - | (318,159) | - | (318,159) |
| Administration | 668,810 | 29,439 | - | - | (639,371) | - | (639,371) |
| Operation and maintenance of plant | 417,387 | - | - | 305,873 | (111,514) | - | (111,514) |
| Transportation | 386,607 | 18,052 | 1,502 | - | (367,053) | - | (367,053) |
| | <u>1,845,556</u> | <u>47,491</u> | <u>1,502</u> | <u>305,873</u> | <u>(1,490,690)</u> | <u>-</u> | <u>(1,490,690)</u> |
| Other expenditures: | | | | | | | |
| Long-term debt interest | 228,606 | - | - | - | (228,606) | - | (228,606) |
| AEA flowthrough | 184,489 | - | 184,489 | - | - | - | - |
| Depreciation(unallocated)* | 230,708 | - | - | - | (230,708) | - | (230,708) |
| | <u>643,803</u> | <u>-</u> | <u>184,489</u> | <u>-</u> | <u>(459,314)</u> | <u>-</u> | <u>(459,314)</u> |
| Total governmental activities | 6,129,587 | 515,075 | 523,490 | 305,873 | (4,785,149) | - | (4,785,149) |
| Business Type activities: | | | | | | | |
| Support services: | | | | | | | |
| Administration | 736 | - | - | - | - | (736) | (736) |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 248,463 | 110,693 | 157,948 | 3,642 | - | 23,820 | 23,820 |
| Total business type activities | <u>249,199</u> | <u>110,693</u> | <u>157,948</u> | <u>3,642</u> | <u>-</u> | <u>23,084</u> | <u>23,084</u> |
| Total | \$ <u>6,378,786</u> | <u>625,768</u> | <u>681,438</u> | <u>309,515</u> | <u>(4,785,149)</u> | <u>23,084</u> | <u>(4,762,065)</u> |
| General Revenues: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | | | | \$ 1,761,379 | - | | 1,761,379 |
| Debt service | | | | 302,672 | - | | 302,672 |
| Capital outlay | | | | 41,575 | - | | 41,575 |
| Income surtax | | | | 208,908 | - | | 208,908 |
| Statewide sales, services and use tax | | | | 479,972 | - | | 479,972 |
| Unrestricted state grants | | | | 2,388,846 | - | | 2,388,846 |
| Nonspecific program federal grants | | | | 105,862 | - | | 105,862 |
| Unrestricted investment earnings | | | | 11,017 | 9 | | 11,026 |
| Other general revenues | | | | 116,304 | - | | 116,304 |
| Total general revenues | | | | <u>5,416,535</u> | <u>9</u> | | <u>5,416,544</u> |
| Changes in net assets | | | | 631,386 | 23,093 | | 654,479 |
| Net assets beginning of year | | | | 5,211,373 | 640 | | 5,212,013 |
| Net assets end of year | | | | <u>\$ 5,842,759</u> | <u>23,733</u> | | <u>5,866,492</u> |

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

SEE NOTES TO FINANCIAL STATEMENTS

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

| | | | | | Total |
|--|---------------------|---------------------|-----------------|----------------|------------------|
| | General | Capital Projects | Debt Service | Nonmajor | |
| Assets | | | | | |
| Cash and pooled investments | \$ 857,848 | 239,118 | 494,171 | 207,174 | 1,798,311 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 32,699 | 809 | 5,886 | 1,558 | 40,952 |
| Succeeding year | 1,764,852 | 44,756 | 156,772 | 59,999 | 2,026,379 |
| Income surtax | 214,822 | - | - | - | 214,822 |
| Accounts | 33,051 | 6,200 | - | 117 | 39,368 |
| Due from other funds | 37,889 | - | - | - | 37,889 |
| Due from other governments | 160,832 | 110,350 | - | - | 271,182 |
| Total assets | \$ 3,101,993 | 401,233 | 656,829 | 268,848 | 4,428,903 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Due to other funds | \$ - | 12,130 | - | - | 12,130 |
| Accounts payable | 234,271 | 4,371 | 227,125 | 14,110 | 479,877 |
| Retainage payable | - | 91,083 | - | - | 91,083 |
| Salaries and benefits payable | 56,208 | - | - | 97 | 56,305 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 1,764,852 | 44,756 | 156,772 | 59,999 | 2,026,379 |
| Income surtax | 214,822 | - | - | - | 214,822 |
| Other | 1,884 | - | - | - | 1,884 |
| Total liabilities | 2,272,037 | 152,340 | 383,897 | 74,206 | 2,882,480 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| Categorical funding | 55,602 | - | - | - | 55,602 |
| Debt service | - | - | 272,932 | - | 272,932 |
| Management levy purposes | - | - | - | 79,775 | 79,775 |
| Student activities | - | - | - | 114,867 | 114,867 |
| School infrastructure | - | 162,324 | - | - | 162,324 |
| Physical plant and equipment | - | 87,794 | - | - | 87,794 |
| Assigned | 101,318 | - | - | - | 101,318 |
| Unassigned: | | | | | |
| General | 673,036 | - | - | - | 673,036 |
| Capital projects | - | (1,225) | - | - | (1,225) |
| Total fund balances | 829,956 | 248,893 | 272,932 | 194,642 | 1,546,423 |
| Total liabilities and fund balances | \$ 3,101,993 | 401,233 | 656,829 | 268,848 | 4,428,903 |

SEE NOTES TO FINANCIAL STATEMENTS

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

Total fund balances of governmental funds(page 20) \$ 1,546,423

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 in the governmental funds. 9,387,278

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. (34,591)

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 214,822

Long-term liabilities, including bonds payable, leases payable, loans payable, compensated absences and other postemployment benefits payable are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. (5,271,173)

Net assets of governmental activities(page 18) \$ 5,842,759

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

| | General | Capital Projects | Debt Service | Nonmajor | Total |
|--|--------------|---------------------|-----------------|----------|-------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 1,888,118 | 521,547 | 302,672 | 80,039 | 2,792,376 |
| Tuition | 150,328 | - | - | - | 150,328 |
| Other | 397,226 | 22,908 | 74 | 127,742 | 547,950 |
| State sources | 2,628,736 | 28,631 | - | - | 2,657,367 |
| Federal sources | 346,096 | 264,726 | - | - | 610,822 |
| Total revenues | 5,410,504 | 837,812 | 302,746 | 207,781 | 6,758,843 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 2,234,234 | - | - | 66,325 | 2,300,559 |
| Special | 483,167 | - | - | - | 483,167 |
| Other | 734,819 | - | - | 118,099 | 852,918 |
| | 3,452,220 | - | - | 184,424 | 3,636,644 |
| Support services: | | | | | |
| Student | 54,419 | - | - | - | 54,419 |
| Instructional staff | 292,037 | - | - | - | 292,037 |
| Administration | 662,932 | 2,000 | 250 | - | 665,182 |
| Operation and maintenance of plant | 410,038 | - | - | 16,070 | 426,108 |
| Transportation | 321,043 | 154,695 | - | 6,870 | 482,608 |
| | 1,740,469 | 156,695 | 250 | 22,940 | 1,920,354 |
| Capital outlays | - | 3,134,662 | - | - | 3,134,662 |
| Long-term debt: | | | | | |
| Principal | - | - | 592,701 | - | 592,701 |
| Interest | - | - | 259,382 | - | 259,382 |
| | - | - | 852,083 | - | 852,083 |
| Other expenditures: | | | | | |
| AEA flowthrough | 184,489 | - | - | - | 184,489 |
| Total expenditures | 5,377,178 | 3,291,357 | 852,333 | 207,364 | 9,728,232 |
| Excess(deficiency) of revenues over(under) expenditures | 33,326 | (2,453,545) | (549,587) | 417 | (2,969,389) |
| Other financing sources(uses): | | | | | |
| Transfers in | - | - | 324,510 | - | 324,510 |
| Transfers out | (41,006) | (283,504) | - | - | (324,510) |
| Proceeds from bus loans | - | 154,695 | - | - | 154,695 |
| Sale of real property | - | 9,400 | - | - | 9,400 |
| Total other financing sources(uses) | (41,006) | (119,409) | 324,510 | - | 164,095 |
| Net change in fund balances | (7,680) | (2,572,954) | (225,077) | 417 | (2,805,294) |
| Fund balances beginning of year | 837,636 | 2,821,847 | 498,009 | 194,225 | 4,351,717 |
| Fund balances end of year | \$ 829,956 | 248,893 | 272,932 | 194,642 | 1,546,423 |

SEE NOTES TO FINANCIAL STATEMENTS

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

Net change in fund balances - total governmental funds(page 22) \$ (2,805,294)

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

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

| | | |
|------------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 3,455,101 | |
| Depreciation expense | (325,067) | |
| Loss on disposal of capital assets | <u>(157,209)</u> | 2,972,825 |

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

| | | |
|--------|----------------|---------|
| Issued | (154,695) | |
| Repaid | <u>592,701</u> | 438,006 |

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. 30,776

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 2,130

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

| | | |
|-------------------------------|----------------|----------------|
| Compensated absences | \$ (60) | |
| Other postemployment benefits | <u>(6,997)</u> | <u>(7,057)</u> |

Changes in net assets of governmental activities(page 19) \$ 631,386

SEE NOTES TO FINANCIAL STATEMENTS

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

| | School Nutrition |
|--|---------------------|
| Assets | |
| Current assets: | |
| Cash and cash equivalents | \$ 3,679 |
| Accounts receivable | 99 |
| Inventories | 4,797 |
| | 8,575 |
| Non-current assets: | |
| Capital assets, net of accumulated depreciation | 48,493 |
| Total assets | 57,068 |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 114 |
| Salaries and benefits payable | 393 |
| Due to other funds | 25,759 |
| Unearned revenue | 3,771 |
| | 30,037 |
| Long-term liabilities: | |
| Loan payable | 2,844 |
| Net OPEB liability | 454 |
| | 3,298 |
| Total liabilities | 33,335 |
| Net Assets | |
| Invested in capital assets | 48,493 |
| Unrestricted | (24,760) |
| Total net assets | \$ 23,733 |

SEE NOTES TO FINANCIAL STATEMENTS

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

| | School Nutrition |
|---|---------------------|
| Operating revenues: | |
| Local sources: | |
| Charges for services | \$ 110,693 |
| Total operating revenues | 110,693 |
| Operating expenses: | |
| Support services: | |
| Administration: | |
| Other | 736 |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 90,222 |
| Benefits | 18,228 |
| Supplies | 104,690 |
| Other | 1,912 |
| Depreciation | 6,541 |
| | 221,593 |
| Other enterprise operations: | |
| Supplies | 25,790 |
| Total non-instructional programs | 247,383 |
| Total operating expenses | 248,119 |
| Operating loss | (137,426) |
| Non-operating revenues: | |
| Interest income | 9 |
| State sources | 2,132 |
| Federal sources | 155,816 |
| Loss on asset disposal | (1,080) |
| Total non-operating revenues | 156,877 |
| Change in net assets before other financing sources: | 19,451 |
| Other financing sources: | |
| Contributed capital | 3,642 |
| Total other financing sources | |
| Change in net assets | 23,093 |
| Net assets beginning of year | 640 |
| Net assets end of year | \$ 23,733 |

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION 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 | \$ 110,922 |
| Cash payments to employees for services | (108,423) |
| Cash payments to suppliers for goods or services | (108,592) |
| Net cash used in operating activities | (106,093) |
| Cash flows from non-capital financing activities: | |
| Repayment to General Fund | (36,676) |
| State grants received | 2,132 |
| Federal grants received | 136,152 |
| Net cash provided by non-capital financing activities | 101,608 |
| Cash flows from capital and related financing activities: | |
| Principal paid on capital debt | (1,429) |
| Cash flows from investing activities: | |
| Interest on investments | 9 |
| Net decrease in cash and cash equivalents | (5,905) |
| Cash and cash equivalents at beginning of year | 9,584 |
| Cash and cash equivalents at end of year | \$ 3,679 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (137,426) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Commodities consumed | 19,664 |
| Depreciation | 6,541 |
| Decrease in inventories | 4,860 |
| Decrease in accounts receivable | 58 |
| Increase in accounts payable | 12 |
| Decrease in salaries and benefits payable | (88) |
| Increase in unearned revenue | 171 |
| Increase in other postemployment benefits | 115 |
| Net cash used in operating activities | \$ (106,093) |

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2012, the District received \$19,664 of federal commodities.

During the year ended June 30, 2012, the District received capital contributions from the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$3,642.

SEE NOTES TO FINANCIAL STATEMENTS

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

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds. Combining schedules are also included for the Capital Projects Fund accounts.

The District reports the following major governmental funds:

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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, intangibles and machinery and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue

consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Assigned - Amounts assigned by the board to be used for specific purposes, which include the early childhood program and the aspire program.

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. During the year ended June 30, 2012, expenditures exceeded the amount budgeted in the other expenditures function.

(2) Cash and Pooled Investments

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

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

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$660,537 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:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---|------------------|
| General | Enterprise: School Nutrition | \$ 25,759 |
| General | Capital Projects: Statewide Sales, Services and Use Tax | 10,905 |
| General | Capital Projects: Elementary Project | <u>1,225</u> |
| Total | | <u>\$ 37,889</u> |

Nutrition Fund owes the General Fund for salaries and benefits paid by the General Fund. The balance will be repaid by June 30, 2013.

Capital Projects: Statewide Sales, Services and Use Tax Fund owes the General Fund for FEMA administrative salaries and benefits paid by the General Fund. The balance will be repaid by June 30, 2013.

Capital Projects: Elementary Project Fund owes the General Fund for FEMA administrative salaries and benefits paid by the General Fund. The balance will be repaid by June 30, 2013.

(4) **Transfers**

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

| Transfer to | Transfer from | Amount |
|--------------|---|-------------------|
| Debt Service | General | \$ 41,006 |
| Debt Service | Capital Projects: Statewide Sales, Services and Use Tax | 264,033 |
| Debt Service | Capital Projects: Physical Plant and Equipment Levy | 19,471 |
| Total | | <u>\$ 324,510</u> |

The General Fund transferred monies to the Debt Service Fund for principal and interest payments on the District's computer lease indebtedness.

The Capital Projects Fund: Statewide Sales, Services and Use Tax Fund transferred monies to the Debt Service Fund for principal and interest payments on the District's revenue bonded indebtedness.

The Capital Projects Fund: Physical Plant and Equipment Levy Fund transferred monies to the Debt Service Fund for principal and interest payments on the District's bus loan indebtedness.

(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 | \$ 14,205 | - | - | 14,205 |
| Construction in progress | 4,205,774 | 3,239,607 | 7,445,381 | - |
| Total capital assets not being depreciated | <u>4,219,979</u> | <u>3,239,607</u> | <u>7,445,381</u> | <u>14,205</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 3,842,185 | 7,495,568 | 1,151,840 | 10,185,913 |
| Land improvements | 470,045 | 4,000 | 13,400 | 460,645 |
| Machinery and equipment | 1,099,325 | 161,307 | 74,573 | 1,186,059 |
| Total capital assets being depreciated | <u>5,411,555</u> | <u>7,660,875</u> | <u>1,239,813</u> | <u>11,832,617</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,192,204 | 210,306 | 995,301 | 1,407,209 |
| Land improvements | 126,463 | 20,402 | 12,730 | 134,135 |
| Machinery and equipment | 898,414 | 94,359 | 74,573 | 918,200 |
| Total accumulated depreciation | <u>3,217,081</u> | <u>325,067</u> | <u>1,082,604</u> | <u>2,459,544</u> |
| Total capital assets being depreciated, net | <u>2,194,474</u> | <u>7,335,808</u> | <u>157,209</u> | <u>9,373,073</u> |
| Governmental activities capital assets, net | <u>\$ 6,414,453</u> | <u>10,575,415</u> | <u>7,602,590</u> | <u>9,387,278</u> |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|--|---------------------------------|----------------|--------------|---------------------------|
| Business type activities: | | | | |
| Machinery and equipment | \$ 101,469 | 3,642 | 9,113 | 95,998 |
| Less accumulated depreciation | 48,997 | 6,541 | 8,033 | 47,505 |
| Business type activities capital assets, net | <u>\$ 52,472</u> | <u>(2,899)</u> | <u>1,080</u> | <u>48,493</u> |

Depreciation expense was charged by the District as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| Instructional: | |
| Regular | \$ 3,324 |
| Instructional staff | 26,017 |
| Operation and maintenance of plant operations | 2,379 |
| Transportation | 62,639 |
| | <u>94,359</u> |
| Unallocated depreciation | 230,708 |
| | <u>230,708</u> |
| Total governmental activities depreciation expense | <u>\$ 325,067</u> |
| Business type activities: | |
| Food services | <u>\$ 6,541</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 | \$ 3,940,000 | - | 135,000 | 3,805,000 | 140,000 |
| Revenue bonds | 1,595,000 | - | 395,000 | 1,200,000 | - |
| Computer lease | 137,592 | - | 43,428 | 94,164 | 45,820 |
| Loans payable | - | 154,695 | 19,273 | 135,422 | 37,677 |
| Compensated absences | 8,816 | 8,876 | 8,816 | 8,876 | 8,876 |
| Net OPEB liability | 20,714 | 6,997 | - | 27,711 | - |
| | <u>\$ 5,702,122</u> | <u>170,568</u> | <u>601,517</u> | <u>5,271,173</u> | <u>232,373</u> |
| Business type activities: | | | | | |
| Net OPEB liability | \$ 339 | 115 | - | 454 | - |
| Loan payable | 4,273 | - | 1,429 | 2,844 | 1,756 |
| | <u>\$ 4,612</u> | <u>115</u> | <u>1,429</u> | <u>3,298</u> | <u>1,756</u> |

General Obligation Bonds

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

| Year Ending June 30, | Interest Rate | Bond issue May 1, 2010 | | |
|----------------------------|------------------|------------------------|------------------|------------------|
| | | Principal | Interest | Total |
| 2013 | 4.00 | % \$ 140,000 | 161,023 | 301,023 |
| 2014 | 4.00 | 145,000 | 155,422 | 300,422 |
| 2015 | 4.00 | 150,000 | 149,623 | 299,623 |
| 2016 | 4.00 | 160,000 | 143,622 | 303,622 |
| 2017 | 4.00 | 165,000 | 137,223 | 302,223 |
| 2018-2022 | 4.00 | 960,000 | 579,712 | 1,539,712 |
| 2023-2027 | 4.00-4.50 | 1,210,000 | 366,738 | 1,576,738 |
| 2028-2030 | 4.60-4.75 | 875,000 | 83,892 | 958,892 |
| | | <u>\$ 3,805,000</u> | <u>1,777,255</u> | <u>5,582,255</u> |

Revenue Bonds

Details of the District's June 30, 2012 revenue bonds indebtedness is as follows:

| Year Ending June 30, | Interest Rates | Bond issue February 25, 2010 | | |
|----------------------------|-------------------|------------------------------|----------------|------------------|
| | | Principal | Interest | Total |
| 2013 | 2.00 | % \$ - | 46,650 | 46,650 |
| 2014 | 2.00 | 50,000 | 46,150 | 96,150 |
| 2015 | 2.00 | 50,000 | 45,150 | 95,150 |
| 2016 | 2.00 | 50,000 | 44,150 | 94,150 |
| 2017 | 3.00 | 50,000 | 42,900 | 92,900 |
| 2018-2022 | 3.00-4.00 | 275,000 | 189,625 | 464,625 |
| 2023-2027 | 4.10-4.50 | 425,000 | 120,225 | 545,225 |
| 2028-2030 | 4.60-4.75 | 300,000 | 21,225 | 321,225 |
| Total | | <u>\$ 1,200,000</u> | <u>556,075</u> | <u>1,756,075</u> |

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,200,000 issued on February 25, 2010. The 2010 bonds were issued for the purpose of construction of a new elementary building. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitations of the District. Annual principal and interest payments on the bonds are expected to require nearly 10% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$1,756,075. For the current year, principal and interest was paid on the bonds of \$479,934, and the statewide sales, services and use tax revenue was \$479,972.

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

- a) \$119,017 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on

the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.

- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Computer Lease

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

| Year Ending June 30, | Interest Rate | Lease issue June 14, 2010 | | |
|----------------------|---------------|---------------------------|--------------|----------------|
| | | Principal | Interest | Total |
| 2013 | 4.00 | % \$ 45,820 | 5,186 | 51,006 |
| 2014 | 4.00 | 48,344 | 2,662 | 51,006 |
| | | <u>\$ 94,164</u> | <u>7,848</u> | <u>102,012</u> |

Loans Payable

Bus Loans

During the year ended June 30, 2012, the District entered into two contracts for school buses. Details of the obligations, which is payable from the Debt Service Fund are as follows:

| Year Ending June 30, | Loan issue August 26, 2011 | | | Loan issue April 10, 2012 | | | Total | | |
|----------------------|----------------------------|------------------|--------------|---------------------------|---------------|--------------|----------------|--------------|----------------|
| | Interest Rates | Principal | Interest | Interest Rates | Principal | Interest | Principal | Interest | Total |
| 2013 | 2.70 | % \$ 17,976 | 1,496 | 2.70 | % \$ 19,701 | 1,504 | 37,677 | 3,000 | 40,677 |
| 2014 | 2.70 | 18,461 | 1,010 | 2.70 | 19,576 | 1,629 | 38,037 | 1,629 | 39,666 |
| 2015 | 2.70 | 18,955 | 512 | 2.70 | 20,105 | 1,100 | 39,060 | 1,100 | 40,160 |
| 2016 | | - | - | 2.00 | 20,648 | 557 | 20,648 | 557 | 21,205 |
| Total | | <u>\$ 55,392</u> | <u>3,018</u> | | <u>80,030</u> | <u>4,790</u> | <u>135,422</u> | <u>6,286</u> | <u>141,708</u> |

Vending Machine Loan

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

| Year Ending June 30, | Interest Rate | Loan Payable | | |
|----------------------------|------------------|--------------|----------|-------|
| | | Principal | Interest | Total |
| 2013 | 22.92 % | \$ 1,756 | 652 | 2,408 |
| 2014 | 22.92 | 1,088 | 250 | 1,338 |
| | | \$ 2,844 | 902 | 3,746 |

(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 contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$246,435, \$202,137 and \$204,457, respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 95 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

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

| | |
|--|-------------------------|
| Annual required contribution | \$ 30,000 |
| Interest on net OPEB obligation | 947 |
| Adjustment to annual required contribution | <u>(835)</u> |
| Annual OPEB cost | 30,112 |
| Contributions made | <u>(23,000)</u> |
| Increase in net OPEB obligation | 7,112 |
| Net OPEB obligation beginning of year | 21,053 |
| Net OPEB obligation end of year | <u><u>\$ 28,165</u></u> |

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

For the year ended June 30, 2012, the District contributed \$23,000 to the medical plan. Plan members eligible for benefits contributed \$33,000, or 58.93% 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 | \$ 30,000 | 66.7% | \$ 10,000 |
| 2011 | 30,053 | 63.2% | 21,053 |
| 2012 | 30,112 | 76.4% | 28,165 |

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 \$252,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$252,000. The covered payroll (annual payroll of active employees covered by the plan) was \$2,249,296 and the ratio of the UAAL to covered payroll was 11.20%.

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

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

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

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

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

Projected claim costs of the medical plan are \$813 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$184,489 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) Deficit Net Assets/Fund Balances

The Nutrition Fund had a deficit unrestricted net assets at June 30, 2012 of \$24,760. Also, the District had a deficit unassigned fund balance in the Capital Projects Fund: Elementary Project of \$1,225.

(12) Budget Overexpenditure

During the year ended June 30, 2012, the District's expenditures in the other expenditures functional area exceeded the amounts budgeted.

(13) Categorical Funding

The District's restricted fund balances for categorical funding at June 30, 2012 is comprised of the following programs:

| <u>Project</u> | <u>Amount</u> |
|---|------------------|
| Limited English Proficient | \$ 6,498 |
| Gifted and Talented Programs | 26,920 |
| Beginning Teacher Mentoring and Induction Program | 1,454 |
| Teacher Salary Supplement | 20,420 |
| Market Factor Incentives | <u>310</u> |
| Total | <u>\$ 55,602</u> |

EAST UNION COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

| | Governmental | Proprietary | Total | Budgeted Amounts | | Final to Actual Variance |
|--|--------------|-------------|-------------|------------------|-------------|--------------------------------|
| | Fund Types | Fund Type | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 3,490,654 | 110,702 | 3,601,356 | 3,280,463 | 3,280,463 | 320,893 |
| State sources | 2,657,367 | 2,132 | 2,659,499 | 2,705,176 | 2,705,176 | (45,677) |
| Federal sources | 610,822 | 155,816 | 766,638 | 465,000 | 465,000 | 301,638 |
| Total revenues | 6,758,843 | 268,650 | 7,027,493 | 6,450,639 | 6,450,639 | 576,854 |
| Expenditures/Expenses: | | | | | | |
| Instruction | 3,636,644 | - | 3,636,644 | 4,392,793 | 4,392,793 | 756,149 |
| Support services | 1,920,354 | 736 | 1,921,090 | 1,963,675 | 1,963,675 | 42,585 |
| Non-instructional programs | - | 248,463 | 248,463 | 260,000 | 260,000 | 11,537 |
| Other expenditures | 4,171,234 | - | 4,171,234 | 3,956,042 | 3,956,042 | (215,192) |
| Total expenditures/expenses | 9,728,232 | 249,199 | 9,977,431 | 10,572,510 | 10,572,510 | 595,079 |
| Excess(deficiency) of revenues over(under) expenditures/expenses | (2,969,389) | 19,451 | (2,949,938) | (4,121,871) | (4,121,871) | 1,171,933 |
| Other financing sources(uses), net | 164,095 | 3,642 | 167,737 | (6,000) | (6,000) | 173,737 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses | (2,805,294) | 23,093 | (2,782,201) | (4,127,871) | (4,127,871) | 1,345,670 |
| Balances beginning of year | 4,351,717 | 640 | 4,352,357 | 4,127,871 | 4,127,871 | 224,486 |
| Balances end of year | \$ 1,546,423 | 23,733 | 1,570,156 | - | - | 1,570,156 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

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

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

During the year ended June 30, 2012, expenditures in the other expenditure functional area exceeded the amount budgeted.

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

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 2010 | July 1, 2009 | - | \$ 252,000 | 252,000 | 0.0% | \$ 2,280,700 | 11.05% |
| 2011 | July 1, 2009 | - | 252,000 | 252,000 | 0.0% | 2,385,139 | 10.57% |
| 2012 | July 1, 2009 | - | 252,000 | 252,000 | 0.0% | 2,249,296 | 11.20% |

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2012

| | Special Revenue | | |
|--|-------------------------|---------------------|----------------|
| | Manage- ment Levy | Student Activity | Total |
| Assets | | | |
| Cash and pooled investments | \$ 91,688 | 115,486 | 207,174 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 1,558 | - | 1,558 |
| Succeeding year | 59,999 | - | 59,999 |
| Accounts | - | 117 | 117 |
| Total assets | \$ 153,245 | 115,603 | 268,848 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 13,471 | 639 | 14,110 |
| Salaries and benefits payable | - | 97 | 97 |
| Deferred revenue: | | | |
| Succeeding year property tax | 59,999 | - | 59,999 |
| Total liabilities | 73,470 | 736 | 74,206 |
| Fund balances: | | | |
| Restricted for: | | | |
| Management levy purposes | 79,775 | - | 79,775 |
| Student activities | - | 114,867 | 114,867 |
| Total fund balances | 79,775 | 114,867 | 194,642 |
| Total liabilities and fund balances | \$ 153,245 | 115,603 | 268,848 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

| | Special Revenue | | |
|------------------------------------|-------------------------|---------------------|----------------|
| | Manage- ment Levy | Student Activity | Total |
| Revenues: | | | |
| Local sources: | | | |
| Local tax | \$ 80,039 | - | 80,039 |
| Other | 6,528 | 121,214 | 127,742 |
| Total revenues | <u>86,567</u> | <u>121,214</u> | <u>207,781</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular | 66,325 | - | 66,325 |
| Other | - | 118,099 | 118,099 |
| Support services: | | | |
| Operation and maintenance of plant | 16,070 | - | 16,070 |
| Transportation | 6,870 | - | 6,870 |
| Total expenditures | <u>89,265</u> | <u>118,099</u> | <u>207,364</u> |
| Net change in fund balances | (2,698) | 3,115 | 417 |
| Fund balances beginning of year | <u>82,473</u> | <u>111,752</u> | <u>194,225</u> |
| Fund balances end of year | <u>\$ 79,775</u> | <u>114,867</u> | <u>194,642</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS ACCOUNTS
 JUNE 30, 2012

| | Capital Projects | | | | |
|--|--|-----------------------|-----------------------|--|----------------|
| | Statewide Sales, Services and Use Tax | Elementary Project | Playground Project | Physical Plant and Equipment Levy | Total |
| Assets | | | | | |
| Cash and pooled investments | \$ 146,268 | - | 3,320 | 89,530 | 239,118 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | - | - | - | 809 | 809 |
| Succeeding year | - | - | - | 44,756 | 44,756 |
| Accounts | - | - | 6,200 | - | 6,200 |
| Due from other governments | 110,350 | - | - | - | 110,350 |
| Total assets | \$ 256,618 | - | 9,520 | 135,095 | 401,233 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Due to other funds | \$ 10,905 | 1,225 | - | - | 12,130 |
| Accounts payable | 1,366 | - | 460 | 2,545 | 4,371 |
| Retainage payable | 91,083 | - | - | - | 91,083 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | - | - | - | 44,756 | 44,756 |
| Total liabilities | 103,354 | 1,225 | 460 | 47,301 | 152,340 |
| Fund balances: | | | | | |
| Restricted for: | | | | | |
| School infrastructure | 153,264 | - | 9,060 | - | 162,324 |
| Physical plant and equipment | - | - | - | 87,794 | 87,794 |
| Unassigned | - | (1,225) | - | - | (1,225) |
| Total fund balances | 153,264 | (1,225) | 9,060 | 87,794 | 248,893 |
| Total liabilities and fund balances | \$ 256,618 | - | 9,520 | 135,095 | 401,233 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

| | Capital Projects | | | | |
|---|--|-----------------------|-----------------------|--|------------------|
| | Statewide Sales, Services and Use Tax | Elementary Project | Playground Project | Physical Plant and Equipment Levy | Total |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 479,972 | - | - | 41,575 | 521,547 |
| Other | 3,912 | 6,478 | 12,516 | 2 | 22,908 |
| State sources | 12,821 | 15,810 | - | - | 28,631 |
| Federal sources | 146,154 | 118,572 | - | - | 264,726 |
| Total revenues | <u>642,859</u> | <u>140,860</u> | <u>12,516</u> | <u>41,577</u> | <u>837,812</u> |
| Expenditures: | | | | | |
| Support Services: | | | | | |
| Administration | 2,000 | - | - | - | 2,000 |
| Transportation | - | - | - | 154,695 | 154,695 |
| Other expenditures: | | | | | |
| Capital outlays | 1,181,530 | 1,935,664 | 14,923 | 2,545 | 3,134,662 |
| Total expenditures | <u>1,183,530</u> | <u>1,935,664</u> | <u>14,923</u> | <u>157,240</u> | <u>3,291,357</u> |
| Deficiency of revenues under expenditures | (540,671) | (1,794,804) | (2,407) | (115,663) | (2,453,545) |
| Other financing sources(uses): | | | | | |
| Transfers out | (264,033) | - | - | (19,471) | (283,504) |
| Proceeds from bus loans | - | - | - | 154,695 | 154,695 |
| Sale of real property | - | - | - | 9,400 | 9,400 |
| Total other financing sources(uses) | <u>(264,033)</u> | <u>-</u> | <u>-</u> | <u>144,624</u> | <u>(119,409)</u> |
| Net change in fund balances | (804,704) | (1,794,804) | (2,407) | 28,961 | (2,572,954) |
| Fund balances beginning of year | 957,968 | 1,793,579 | 11,467 | 58,833 | 2,821,847 |
| Fund balances end of year | <u>\$ 153,264</u> | <u>(1,225)</u> | <u>9,060</u> | <u>87,794</u> | <u>248,893</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|------------------------|---------------------------------|----------|-------------------|---------------------------|
| Boys basketball | \$ 2,835 | - | 114 | 2,721 |
| Boys football | 2,286 | 825 | 1,112 | 1,999 |
| Boys baseball | 1,100 | 832 | 1,108 | 824 |
| Boys track | 1,657 | 673 | 783 | 1,547 |
| Boys wrestling | 2,347 | - | 97 | 2,250 |
| Girls basketball | 4,507 | 1,047 | 781 | 4,773 |
| Girls volleyball | 3,053 | 7,883 | 9,020 | 1,916 |
| Girls softball | 3,771 | 1,816 | 3,367 | 2,220 |
| Girls track | 1,689 | 360 | 282 | 1,767 |
| MS student council | 5,039 | 273 | 176 | 5,136 |
| Drama | 3,494 | 652 | 1,156 | 2,990 |
| Vocal music | 13,508 | 5,723 | 7,786 | 11,445 |
| Instrumental music | 2,604 | 3,090 | 3,441 | 2,253 |
| HS golf | 2,123 | - | 58 | 2,065 |
| Weight room | 1,388 | - | 1,115 | 273 |
| General athletics | 41,650 | 57,871 | 49,926 | 49,595 |
| Class of 2012 | 486 | 496 | 982 | - |
| Class of 2013 | 2,055 | 15,238 | 15,092 | 2,201 |
| Class of 2014 | - | 2,764 | 1,598 | 1,166 |
| Concessions | 1,627 | 648 | 448 | 1,827 |
| FFA | 3,484 | 9,500 | 8,649 | 4,335 |
| FCCLA | 255 | 2,274 | 2,308 | 221 |
| Now account interest | - | 22 | 22 | - |
| National honor society | 39 | - | - | 39 |
| Science club | 2,063 | 434 | 399 | 2,098 |
| Spanish club | 2,193 | - | 11 | 2,182 |
| Student council | 296 | 2,220 | 2,059 | 457 |
| Vocational agriculture | 155 | - | - | 155 |
| Yearbook | 6,048 | 6,573 | 6,209 | 6,412 |
| Total | \$ 111,752 | 121,214 | 118,099 | 114,867 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

| | Modified Accrual Basis | | | | | | | | |
|---------------------------------------|------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Years Ended June 30, | | | | | | | | |
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | | | | | | |
| Local sources: | | | | | | | | | |
| Local tax | \$ 2,792,376 | 2,633,831 | 2,094,554 | 1,987,464 | 1,935,751 | 2,188,764 | 2,138,771 | 1,904,633 | 1,802,600 |
| Tuition | 150,328 | 95,132 | 117,889 | 128,785 | 94,981 | 64,103 | 60,448 | 45,634 | 62,243 |
| Other | 547,950 | 1,247,379 | 344,129 | 342,044 | 443,423 | 577,225 | 530,708 | 461,352 | 426,612 |
| State sources | 2,657,367 | 2,852,240 | 2,370,396 | 2,776,255 | 2,852,537 | 2,497,099 | 2,258,608 | 2,189,660 | 2,134,366 |
| Federal sources | 610,822 | 1,153,908 | 555,502 | 294,287 | 317,361 | 356,786 | 395,753 | 660,075 | 593,982 |
| Total | \$ 6,758,843 | 7,982,490 | 5,482,470 | 5,528,835 | 5,644,053 | 5,683,977 | 5,384,288 | 5,261,354 | 5,019,803 |
| Expenditures: | | | | | | | | | |
| Current: | | | | | | | | | |
| Instruction: | | | | | | | | | |
| Regular | \$ 2,300,559 | 2,004,332 | 1,897,660 | 2,420,010 | 2,188,154 | 1,957,053 | 1,861,322 | 1,694,655 | 1,660,307 |
| Special | 483,167 | 561,011 | 609,348 | 1,055,656 | 641,748 | 636,887 | 552,802 | 453,198 | 1,111,379 |
| Other | 852,918 | 910,718 | 1,089,427 | 346,367 | 750,655 | 733,997 | 793,753 | 1,063,047 | 304,524 |
| Support services: | | | | | | | | | |
| Student | 54,419 | 48,741 | 70,138 | 66,610 | 85,589 | 72,179 | 68,461 | 66,868 | 102,410 |
| Instructional staff | 292,037 | 385,617 | 139,091 | 257,576 | 156,977 | 213,212 | 163,014 | 99,174 | 84,091 |
| Administration | 665,182 | 573,761 | 606,330 | 533,499 | 513,764 | 435,934 | 431,359 | 386,224 | 419,226 |
| Operation and maintenance of plant | 426,108 | 385,107 | 379,495 | 396,027 | 455,939 | 371,620 | 355,242 | 331,774 | 321,013 |
| Transportation | 482,608 | 330,215 | 343,645 | 296,975 | 492,979 | 289,201 | 314,779 | 245,561 | 260,617 |
| Capital outlays | 3,134,662 | 4,061,215 | 351,138 | 271,535 | 552,245 | 153,407 | 206,641 | 480,552 | 979,330 |
| Long-term debt: | | | | | | | | | |
| Principal | 592,701 | 310,000 | 180,000 | 170,000 | 165,000 | 155,000 | 145,000 | 105,000 | - |
| Interest | 259,382 | 230,687 | 23,843 | 30,642 | 34,578 | 41,838 | 47,238 | 51,738 | 560 |
| Other expenditures: | | | | | | | | | |
| AEA flow-through | 184,489 | 209,828 | 202,854 | 185,155 | 178,972 | 163,035 | 153,606 | 153,203 | 155,177 |
| Total | \$ 9,728,232 | 10,011,232 | 5,892,969 | 6,030,052 | 6,216,600 | 5,223,363 | 5,093,217 | 5,130,994 | 5,398,634 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

| Grantor/Program | CFDA Number | Grant Number | Expendi- tures |
|---|----------------|-----------------|-------------------|
| Direct: | | | |
| U.S. Department of Education | | | |
| Rural Education Achievement Program | 84.358 | FY12 | \$ 20,903 |
| U.S. Department of Human Services | | | |
| Child Care and Development Block Grant | 93.575 | FY11 | 6,455 |
| Child Care and Development Block Grant | 93.575 | FY12 | 33,000 |
| | | | <u>39,455</u> |
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY12 | 24,467 |
| National School Lunch Program | 10.555 | FY12 | 105,559 * |
| | | | <u>130,026</u> |
| Child and Adult Care Food Program | 10.558 | FY12 | 25,790 |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY11 | 2,720 |
| Title I Grants to Local Educational Agencies | 84.010 | FY12 | 102,192 |
| | | | <u>104,912</u> |
| Career and Technical Education - Basic Grants to States | 84.048 | FY12 | 6,969 |
| Fund for the Improvement of Education | 84.215 | FY12 | 50,000 |
| Improving Teacher Quality State Grants (Title IIA) | 84.367 | FY12 | 27,433 |
| Grants for State Assessment and Related Activities | 84.369 | FY11 | 753 |
| Grants for State Assessment and Related Activities | 84.369 | FY12 | 2,828 |
| | | | <u>3,581</u> |
| Education Jobs Fund | 84.410 | FY11 | 104,318 |
| Education Jobs Fund | 84.410 | FY12 | 1,544 |
| | | | <u>105,862</u> |
| Area Education Agency: | | | |
| Special Education - Grants to States | 84.027 | FY12 | 25,710 |
| District Defined IDEA Subgrants | 85.027 | FY12 | 165 |
| | | | <u>25,875</u> |
| U.S. Department of Homeland Security: | | | |
| Hazard Mitigation Grant | 97.039 | FY12 | 225,632 |
| National Endowment for the Arts: | | | |
| Iowa Arts Council: | | | |
| Promotion of the Arts - Partnership Agreements (Big Yellow School Bus) | 45.025 | FY12 | 200 |
| Total | | | <u>\$ 766,638</u> |

* - Includes \$19,664 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Union Community School District of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 1, 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 Union Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered East Union Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of East Union Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Union Community School District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Union Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not

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express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 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 Union Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit East Union Community School District's responses and, accordingly, we express no opinion on them.

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 1, 2013

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(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 the
East Union Community School District:

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 1, 2013

EAST UNION 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 material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Programs:
 - Nutrition Cluster:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual Programs:
 - CFDA Number 84.010 - Title I Grants to Location Educational Agencies
 - CFDA Number 97.039 - Hazard Mitigation Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) East Union Community School District did not qualify as a low-risk auditee.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 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. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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

Response - The District will investigate alternatives and implement if possible.

Conclusion - Response accepted.

EAST UNION COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 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 Education
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2011, 2012
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 97.039: Hazard Mitigation Grant
Federal Award Year: 2012
U.S. Department of Homeland Security

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. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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

Response - The District will investigate alternatives and implement if possible.

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - Expenditures for the year ended June 30, 2012 exceeded the certified budget amount in the other expenditures function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The budget will be amended in the future to be in accordance with Chapter 24.9 of the Code of Iowa.

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined by Attorney General's opinion dated April 24, 1979 were noted.

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 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 - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-12 Supplementary Weighting - The District did not offer and serve Western Civilization classes resulting in accreditation adjustments of -0.04.

Recommendation - The District should contact the Department of Education to resolve these adjustments.

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

Conclusion - Response accepted.

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

IV-J-12 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-K-12 Categorical Funding - No instances were noted of categorical funding 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.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

| | | |
|------------------------------------|--------------|-------------------|
| Beginning Balance | | \$ 957,968 |
| Revenues: | | |
| Sales tax revenues | \$ 479,972 | |
| Other local revenues | 3,912 | |
| Other state revenue | 12,821 | |
| Other federal revenue | 146,154 | 642,859 |
| | | <u>1,600,827</u> |
| Expenditures/transfers out: | | |
| School infrastructure construction | \$ 1,077,960 | |
| Equipment | 100,570 | |
| Other | 5,000 | |
| Transfers to other funds: | | |
| Debt service fund | 264,033 | 1,447,563 |
| | | <u>1,447,563</u> |
| Ending Balance | | <u>\$ 153,264</u> |

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

IV-M-12 Financial Condition - At June 30, 2012, the District had a deficit unrestricted net assets balance of \$24,760 in the Nutrition Fund. The District also had a deficit unassigned fund balance in the Capital Projects: Elementary Project Fund of \$1,225.

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

Response - Effective July 1, 2012 the District reduced the number of cooks and janitors on staff in the Nutrition fund in an attempt to reduce Nutrition Fund expenses to combat the deficit balance.

Conclusion - Response accepted.