

FORT MADISON 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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Fort Madison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2011 Election)</b>		
Judy Gerdes	President	2011
George Wheeler	Vice President	2011
Duane Sherwood	Board Member	2011
Timm Lamb	Board Member	2013
Rob Hogan	Board Member	2011
Tim Wondra	Board Member	2013
Denise Gray	Board Member	2013
<b>(After September 2011 Election)</b>		
Judy Gerdes	President	2015
George Wheeler	Vice President	2015
Duane Sherwood	Board Member	2015
Timm Lamb	Board Member	2013
Rob Hogan	Board Member	2015
Tim Wondra	Board Member	2013
Denise Gray	Board Member	2013
<b>School Officials</b>		
Dr. Kenneth Marang	Superintendent	2012
Janice Burch	Director of Student Services	2012
Sandra K. Elmore	District Secretary/Treasurer and Business Manager	2012
Gruhn Law Firm	Attorney	2012

**FORT MADISON 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  
Fort Madison 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 Fort Madison Community School District, Fort Madison, 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 Fort Madison 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 8, 2013 on our consideration of Fort Madison 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 and the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 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 Fort Madison Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The 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 to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2013

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

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Fort Madison 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**

- The District's total combined net assets were \$23,692,995 as of June 30, 2011 compared to \$25,900,526 as of June 30, 2012, an increase of 9.32%.
- General Fund revenues decreased from \$22,109,092 in fiscal 2011 to \$21,754,852 in fiscal 2012, while General Fund expenditures decreased from \$20,821,757 in fiscal 2011 to \$20,485,433 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$2,944,669 in fiscal 2011 to \$4,214,088 in fiscal 2012.
- The decrease in General Fund expenditures was due primarily to a decrease in the expenditures in the support services function.

### **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 Fort Madison 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 Fort Madison 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 Fort Madison Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

Notes to 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 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-1**  
**Fort Madison Community School District Annual Financial Report**

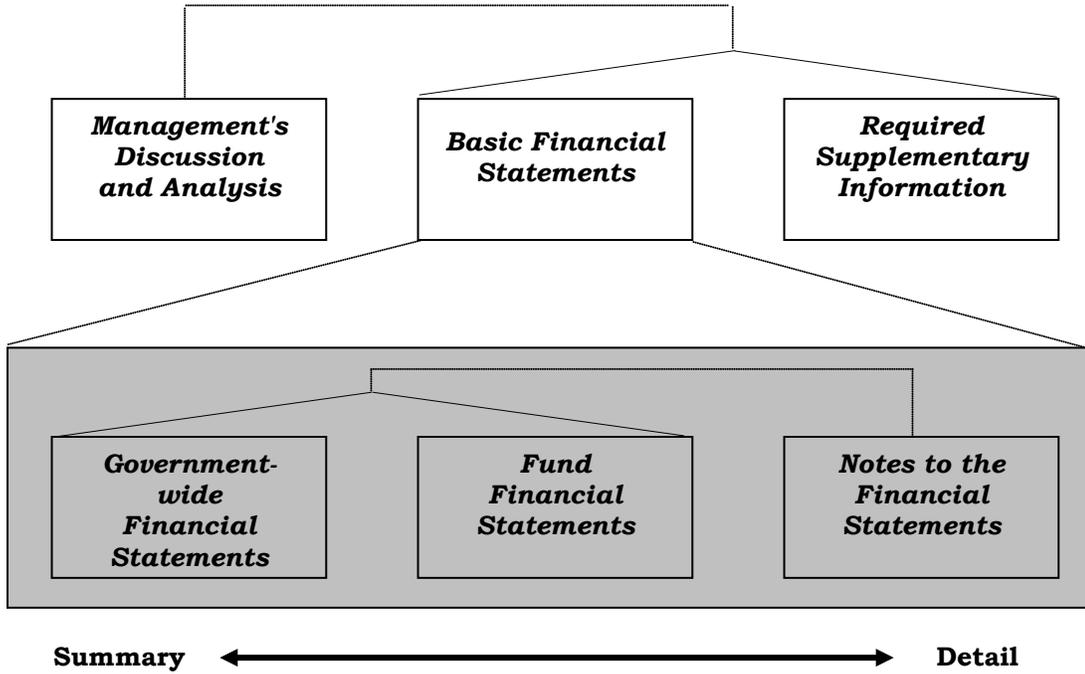


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has 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, the Special Revenue Funds and the Capital Projects Fund.

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 27,404,836	36,039,307	218,481	248,713	27,623,317	36,288,020	-23.88%
Capital assets	25,263,455	14,621,753	80,491	94,509	25,343,946	14,716,262	72.22%
Total assets	52,668,291	50,661,060	298,972	343,222	52,967,263	51,004,282	3.85%
Long-term liabilities	15,023,320	15,735,000	0	0	15,023,320	15,735,000	-4.52%
Other liabilities	11,999,452	11,513,668	43,965	62,619	12,043,417	11,576,287	4.04%
Total liabilities	27,022,772	27,248,668	43,965	62,619	27,066,737	27,311,287	-0.90%
Net assets:							
Invested in capital assets	10,478,455	9,699,584	80,491	94,509	10,558,946	9,794,093	7.81%
Restricted	11,465,890	11,261,317	0	0	11,465,890	11,261,317	1.82%
Unrestricted	3,701,174	2,451,491	174,516	186,094	3,875,690	2,637,585	46.94%
Total net assets	\$ 25,645,519	23,412,392	255,007	280,603	25,900,526	23,692,995	9.32%

The District's combined net assets increased by 9.32%, or \$2,207,531, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment).

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$204,573, or 1.82% from the prior year. The increase was primarily a result of the increase in the Management Fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$1,238,105, or 46.94%. This increase in unrestricted net assets was a result of the increase in the General Fund.

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

Figure A-4  
Changes in 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	\$ 917,619	736,369	335,046	315,050	1,252,665	1,051,419	19.14%
Operating grants and contributions and restricted interest	2,177,068	2,703,622	652,293	623,994	2,829,361	3,327,616	-14.97%
General revenues:							
Property tax	7,391,260	7,731,784	0	0	7,391,260	7,731,784	-4.40%
Statewide sales, services and use tax	1,940,737	1,739,771	0	0	1,940,737	1,739,771	11.55%
Unrestricted state grants	12,117,003	11,464,718	0	0	12,117,003	11,464,718	5.69%
Nonspecific program federal grants	246,768	475,167	0	0	246,768	475,167	-48.07%
Unrestricted investment earnings	4,492	30,609	21	212	4,513	30,821	-85.36%
Other	51,650	59,812	19,773	16,793	71,423	76,605	-6.76%
Total revenues	24,846,597	24,941,852	1,007,133	956,049	25,853,730	25,897,901	-0.17%
Program expenses:							
Governmental activities:							
Instructional	15,022,823	15,331,849	0	0	15,022,823	15,331,849	-2.02%
Support services	5,546,097	5,373,304	3,660	0	5,549,757	5,373,304	3.28%
Non-instructional programs	0	0	1,029,069	985,467	1,029,069	985,467	4.42%
Other expenses	2,044,550	2,160,488	0	0	2,044,550	2,160,488	-5.37%
Total expenses	22,613,470	22,865,641	1,032,729	985,467	23,646,199	23,851,108	-0.86%
Changes in net assets	2,233,127	2,076,211	(25,596)	(29,418)	2,207,531	2,046,793	7.85%
Net assets beginning of year	23,412,392	21,336,181	280,603	310,021	23,692,995	21,646,202	9.46%
Net assets end of year	\$ 25,645,519	23,412,392	255,007	280,603	25,900,526	23,692,995	9.32%

In fiscal 2012, property tax, statewide sales and services tax, and unrestricted state grants account for 86.33% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.03% of the revenue from business type activities.

The District's total revenues were approximately \$25.85 million of which approximately \$24.85 million was for governmental activities and approximately \$1.00 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 0.17% in revenues and a 0.86% decrease in expenses. The decrease in expenses was related to the decrease in instructional expenses during the year.

### Governmental Activities

Revenues for governmental activities were \$24,846,597 and expenses were \$22,613,470 for the year ended June 30, 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.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 15,022,823	15,331,849	-2.02%	12,908,435	13,063,441	-1.19%
Support services	5,546,097	5,373,304	3.22%	5,462,828	5,202,592	5.00%
Other expenses	2,044,550	2,160,488	-5.37%	1,147,520	1,159,617	-1.04%
Totals	<u>\$ 22,613,470</u>	<u>22,865,641</u>	<u>-1.10%</u>	<u>19,518,783</u>	<u>19,425,650</u>	<u>0.48%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District’s programs was \$917,619.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,177,068.
- The net cost of governmental activities was financed with \$7,391,260 in property tax, \$1,940,737 in statewide sales, service and use tax, \$12,117,003 in unrestricted state grants, \$246,768 in nonspecific program federal grants, \$4,492 in interest income and \$51,650 in other general revenues.

### Business Type Activities

Revenues of the District’s business type activities were \$1,007,133 and expenses were \$1,032,729. 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 Fort Madison Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$15,575,072, below last year’s ending fund balances of \$24,749,397. The primary reason for the decrease in combined fund balances in fiscal 2012 is due to construction costs associated with the new 4-8 building.

### Governmental Fund Highlights

- The District’s General Fund financial position is the product of many factors. While revenues decreased during the year, expenditures also decreased by nearly the same amount. This resulted in an increase in the District’s General fund balance by 43.11%.
- The Capital Projects Fund balance decreased from a balance of \$18,569,506 at July 1, 2011 to \$7,996,423 at June 30, 2012. The decrease was the result of the District continuing work on a new 4-8 building.

### Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$280,603 at June 30, 2011 to \$255,007 at June 30, 2012, representing a decrease of 9.12%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$652,158 more than budgeted revenues, a variance of 2.59%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted; due primarily to the construction costs associated with a new 4-8 building. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

The District amended its budget one time to reflect additional expenditures associated with construction projects. Despite amending their budget the District exceeded its budget in the non-instructional programs and other expenditures functional areas. Total expenditures for the year also exceeded the budgeted amount.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2012, the District had invested \$25,343,946, 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 72.22% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$712,300.

The original cost of the District's capital assets was \$24,492,669. Governmental funds account for \$24,255,534 with the remainder of \$237,135 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$15,539,002 at June 30, 2012 compared to \$4,535,775 at June 30, 2011. This increase was the result of the construction of a new 4-8 school building continuing during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 919,088	919,088	0	0	919,088	919,088	0.00%
Construction in progress	15,539,002	4,535,775	0	0	15,539,002	4,535,775	242.59%
Buildings	7,354,105	7,696,172	0	0	7,354,105	7,696,172	-4.44%
Improvements other than buildings	858,740	885,225	0	0	858,740	885,225	-2.99%
Machinery and equipment	592,520	585,493	80,491	94,509	673,011	680,002	-1.03%
Total	\$ 25,263,455	14,621,753	80,491	94,509	25,343,946	14,716,262	72.22%

### Long-Term Debt

At June 30, 2012, the District had \$15,023,320 in long-term debt outstanding. This represents a decrease of 4.52% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

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The District had outstanding Revenue Bonds payable of \$14,785,000 at June 30, 2012.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$160,000 at June 30, 2012.

The District had compensated absences payable of \$78,320 at June 30, 2012.

Figure A-7  
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2012	2011	2011-12
Revenue bonds	\$ 14,785,000	15,375,000	-3.84%
Early retirement	160,000	360,000	-55.56%
Compensated absences	78,320	0	100.00%
Totals	<u>\$ 15,023,320</u>	<u>15,735,000</u>	<u>-4.52%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The state's economy is showing limited signs of economic recovery. The weak economy has adversely impacted the State of Iowa's budget and has translated into reduced levels of state aid funding for education.
- The District has experienced several years of declining enrollment and the trend is projected to continue for the near future.

## **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 Sandra K. Elmore, District Secretary/Treasurer and Business Manager, Fort Madison Community School District, P.O. Box 1423, Fort Madison, Iowa, 52627.

**FORT MADISON COMMUNITY SCHOOL DISTRICT**

BASIC FINANCIAL STATEMENTS

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:	\$ 18,848,608	145,312	18,993,920
Receivables:			
Property tax:			
Delinquent	121,158	0	121,158
Succeeding year	7,318,155	0	7,318,155
Accounts	140,670	48,448	189,118
Due from other governments	828,317	4,100	832,417
Inventories	1,475	19,395	20,870
Capital assets, net of accumulated depreciation	25,263,455	80,491	25,343,946
Net OPEB asset	146,453	1,226	147,679
<b>Total Assets</b>	<b>52,668,291</b>	<b>298,972</b>	<b>52,967,263</b>
<b>Liabilities</b>			
Accounts payable	2,489,627	1,050	2,490,677
Salaries and benefits payable	1,873,374	30,401	1,903,775
Unearned revenue	0	12,514	12,514
Accrued interest payable	316,141	0	316,141
Deferred revenue:			
Succeeding year property tax	7,318,155	0	7,318,155
Other	2,155	0	2,155
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	595,000	0	595,000
Early retirement	110,000	0	110,000
Compensated absences	78,320	0	78,320
Portion due after one year:			
Revenue bonds	14,190,000	0	14,190,000
Early retirement	50,000	0	50,000
<b>Total Liabilities</b>	<b>27,022,772</b>	<b>43,965</b>	<b>27,066,737</b>
<b>Net Assets</b>			
Invested in capital assets	10,478,455	80,491	10,558,946
Restricted for:			
Categorical funding	264,906	0	264,906
School infrastructure	6,632,346	0	6,632,346
Debt service	3,534,902	0	3,534,902
Physical plant and equipment	53,908	0	53,908
Management levy purposes	815,680	0	815,680
Student activities	164,148	0	164,148
Unrestricted	3,701,174	174,516	3,875,690
<b>Total Net Assets</b>	<b>\$ 25,645,519</b>	<b>255,007</b>	<b>25,900,526</b>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, and Restricted Contributions Interest	Governmental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 8,332,286	353,101	152,680	(7,826,505)	0	(7,826,505)
Special	3,976,406	146,488	426,254	(3,403,664)	0	(3,403,664)
Other	2,714,131	418,030	617,835	(1,678,266)	0	(1,678,266)
	<u>15,022,823</u>	<u>917,619</u>	<u>1,196,769</u>	<u>(12,908,435)</u>	<u>0</u>	<u>(12,908,435)</u>
Support services:						
Student	461,646	0	0	(461,646)	0	(461,646)
Instructional staff	702,473	0	0	(702,473)	0	(702,473)
Administration	1,803,707	0	0	(1,803,707)	0	(1,803,707)
Operation and maintenance of plant	1,634,461	0	0	(1,634,461)	0	(1,634,461)
Transportation	943,810	0	83,269	(860,541)	0	(860,541)
	<u>5,546,097</u>	<u>0</u>	<u>83,269</u>	<u>(5,462,828)</u>	<u>0</u>	<u>(5,462,828)</u>
Long-term debt interest	634,032	0	0	(634,032)	0	(634,032)
Other expenses:						
AEA flowthrough	897,030	0	897,030	0	0	0
Depreciation(unallocated)*	513,488	0	0	(513,488)	0	(513,488)
	<u>1,410,518</u>	<u>0</u>	<u>897,030</u>	<u>(513,488)</u>	<u>0</u>	<u>(513,488)</u>
Total governmental activities	<u>22,613,470</u>	<u>917,619</u>	<u>2,177,068</u>	<u>(19,518,783)</u>	<u>0</u>	<u>(19,518,783)</u>
Business Type activities:						
Support services:						
Operation and maintenance of plant	3,660	0	0	0	(3,660)	(3,660)
Non-instructional programs:						
Food service operations	1,029,069	335,046	652,293	0	(41,730)	(41,730)
Total business type activities	<u>1,032,729</u>	<u>335,046</u>	<u>652,293</u>	<u>0</u>	<u>(45,390)</u>	<u>(45,390)</u>
Total	<u>\$ 23,646,199</u>	<u>1,252,665</u>	<u>2,829,361</u>	<u>(19,518,783)</u>	<u>(45,390)</u>	<u>(19,564,173)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 7,222,344	0	7,222,344
Capital outlay				168,916	0	168,916
Statewide sales, services and use tax				1,940,737	0	1,940,737
Unrestricted state grants				12,117,003	0	12,117,003
Nonspecific program federal grants				246,768	0	246,768
Unrestricted investment earnings				4,492	21	4,513
Other				51,650	19,773	71,423
Total general revenues				<u>21,751,910</u>	<u>19,794</u>	<u>21,771,704</u>
Change in net assets				2,233,127	(25,596)	2,207,531
Net assets beginning of year				<u>23,412,392</u>	<u>280,603</u>	<u>23,692,995</u>
Net assets end of year				<u>\$ 25,645,519</u>	<u>255,007</u>	<u>25,900,526</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	Capital			Total
	General	Projects	Nonmajor	
<b>Assets</b>				
Cash and pooled investments:	\$ 5,953,397	9,521,510	3,373,701	18,848,608
Receivables:				
Property tax:				
Delinquent	108,919	2,737	9,502	121,158
Succeeding year	6,704,703	177,552	435,900	7,318,155
Accounts	140,670	0	0	140,670
Due from other governments	398,141	430,176	0	828,317
Inventories	1,475	0	0	1,475
<b>Total Assets</b>	<b>\$ 13,307,305</b>	<b>10,131,975</b>	<b>3,819,103</b>	<b>27,258,383</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 512,985	1,958,000	18,642	2,489,627
Salaries and benefits payable	1,873,374	0	0	1,873,374
Deferred revenue:				
Succeeding year property tax	6,704,703	177,552	435,900	7,318,155
Other	2,155	0	0	2,155
Total liabilities	9,093,217	2,135,552	454,542	11,683,311
Fund balances:				
Nonspendable	1,475	0	0	1,475
Restricted for:				
Categorical funding	264,906	0	0	264,906
School infrastructure	0	6,632,346	0	6,632,346
Debt service	0	1,310,169	2,224,733	3,534,902
Physical plant and equipment	0	53,908	0	53,908
Management levy purposes	0	0	975,680	975,680
Student activities	0	0	164,148	164,148
Unassigned	3,947,707	0	0	3,947,707
Total fund balances	4,214,088	7,996,423	3,364,561	15,575,072
<b>Total Liabilities and Fund Balances</b>	<b>\$ 13,307,305</b>	<b>10,131,975</b>	<b>3,819,103</b>	<b>27,258,383</b>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON 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)** \$ 15,575,072

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 25,263,455

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (316,141)

Other postemployment benefits are not yet available to finance expenditures of the current fiscal period. 146,453

Long-term liabilities, including revenue bonds payable and compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds. (15,023,320)

**Net assets of governmental activities (page 18)** \$ 25,645,519

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

	Capital			Total
	General	Projects	Nonmajor	
Revenues:				
Local sources:				
Local tax	\$ 6,642,787	2,109,653	579,557	9,331,997
Tuition	328,861	0	0	328,861
Other	275,114	3,325	399,210	677,649
State sources	13,094,062	0	0	13,094,062
Federal sources	1,414,028	0	0	1,414,028
Total revenues	<u>21,754,852</u>	<u>2,112,978</u>	<u>978,767</u>	<u>24,846,597</u>
Expenditures:				
Current:				
Instruction:				
Regular	8,194,111	0	341,255	8,535,366
Special	3,998,469	0	0	3,998,469
Other	2,336,847	0	380,112	2,716,959
	<u>14,529,427</u>	<u>0</u>	<u>721,367</u>	<u>15,250,794</u>
Support services:				
Student	462,312	0	0	462,312
Instructional staff	570,573	137,624	4,953	713,150
Administration	1,775,598	0	6,766	1,782,364
Operation and maintenance of plant	1,460,169	0	88,189	1,548,358
Transportation	790,324	155,698	24,303	970,325
	<u>5,058,976</u>	<u>293,322</u>	<u>124,211</u>	<u>5,476,509</u>
Capital outlay	0	11,163,707	0	11,163,707
Long-term debt:				
Principal	0	0	590,000	590,000
Interest and fiscal charges	0	0	642,882	642,882
	<u>0</u>	<u>0</u>	<u>1,232,882</u>	<u>1,232,882</u>
Other expenditures:				
AEA flowthrough	897,030	0	0	897,030
Total expenditures	<u>20,485,433</u>	<u>11,457,029</u>	<u>2,078,460</u>	<u>34,020,922</u>
Excess(Deficiency) of revenues over(under) expenditures	1,269,419	(9,344,051)	(1,099,693)	(9,174,325)
Other financing sources(uses):				
Transfer in	0	0	1,229,032	1,229,032
Transfer out	0	(1,229,032)	0	(1,229,032)
Total other financing sources(uses)	<u>0</u>	<u>(1,229,032)</u>	<u>1,229,032</u>	<u>0</u>
Net change in fund balances	1,269,419	(10,573,083)	129,339	(9,174,325)
Fund balance beginning of year	<u>2,944,669</u>	<u>18,569,506</u>	<u>3,235,222</u>	<u>24,749,397</u>
Fund balance end of year	<u>\$ 4,214,088</u>	<u>7,996,423</u>	<u>3,364,561</u>	<u>15,575,072</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON 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)** \$ (9,174,325)

**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 amounts of capital outlays, depreciation expense and loss on disposal of assets in the year are as follows:

Capital outlays	\$ 11,343,481	
Depreciation expense	(698,369)	
Loss on disposal of assets	(3,410)	10,641,702
		<hr/>

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 590,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 8,850

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

Early retirement	200,000	
Compensated absences	(78,320)	
Other postemployment benefits	45,220	166,900
		<hr/>

**Changes in net assets of governmental activities (page 19)** \$ 2,233,127

FORT MADISON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	School Nutrition
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 145,312
Accounts receivable	48,448
Due from other governments	4,100
Inventories	19,395
Total current assets	217,255
Non-current assets:	
Capital assets, net of accumulated depreciation	80,491
Net OPEB asset	1,226
Total non-current assets	81,717
<b>Total Assets</b>	298,972
<b>Liabilities</b>	
Accounts payable	1,050
Salaries and benefits payable	30,401
Unearned revenue	12,514
<b>Total Liabilities</b>	43,965
<b>Net Assets</b>	
Invested in capital assets	80,491
Unrestricted	174,516
<b>Total Net Assets</b>	\$ 255,007

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 335,046
Miscellaneous	19,773
TOTAL OPERATING REVENUES	354,819
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant:	
Services	3,660
Non-instructional programs:	
Food service operations:	
Salaries	334,181
Benefits	47,469
Services	5,273
Supplies	611,961
Depreciation	15,592
Other	13,931
Total non-instructional programs	1,028,407
TOTAL OPERATING EXPENSES	1,032,067
OPERATING LOSS	(677,248)
NON-OPERATING REVENUES (EXPENSES) :	
State sources	9,413
Federal sources	642,880
Interest income	21
Loss on disposal of assets	(662)
TOTAL NON-OPERATING REVENUES (EXPENSES)	651,652
Change in net assets	(25,596)
Net assets beginning of year	280,603
Net assets end of year	\$ 255,007

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON 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	\$ 326,631
Cash received from miscellaneous operating activities	19,773
Cash payments to employees for services	(398,124)
Cash payments to suppliers for goods or services	(585,827)
Net cash used in operating activities	(637,547)
Cash flows from non-capital financing activities:	
State grants received	9,413
Federal grants received	589,331
Net cash provided by non-capital financing activities	598,744
Cash flows from capital and related financing activities:	
Purchase of capital assets	(575)
Cash flows from investing activities:	
Interest income	21
Net decrease in cash and cash equivalents	(39,357)
Cash and cash equivalents at beginning of year	184,669
Cash and cash equivalents at end of year	\$ 145,312
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (677,248)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	52,287
Depreciation	13,931
Decrease in inventories	1,677
Increase in accounts receivable	(9,161)
Decrease in accounts payable	(3,305)
Decrease in salaries and benefits payable	(16,095)
Increase in unearned revenue	746
Decrease in other postemployment benefits	(379)
Net cash used in operating activities	\$ (637,547)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$52,287.

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

The Fort Madison 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 Fort Madison, Iowa, and the predominate agricultural territory in Lee, Des Moines and Henry 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, Fort Madison 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 Fort Madison 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 Lee, Des Moines and Henry Counties Assessors' Conference Board.

**B. Basis of Presentation**

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Any unused revenue bond proceeds are added into invested in capital assets, net of related debt.

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following nonmajor proprietary fund:

The District's proprietary fund is the Enterprise, 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 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 - restricted and then unassigned fund balances.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for

Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property Tax Receivable - Property tax in the governmental funds is 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, machinery, equipment and intangibles are reported in the applicable governmental or business type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

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

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

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

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

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

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. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

Nonspendable - Amounts which cannot be spent because they are not expected to be converted to cash. These items include inventory items.

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

Unassigned - All amounts not included in the preceding 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 in the non-instructional programs and other expenditures functional areas exceeded the budgeted amounts. Total expenditures for the year also exceeded the budgeted amount.

**(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 \$14,209,618 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard and Poor's Financial Services.

**(3) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide, Sales, Services and Use Tax	<u>\$ 1,229,032</u>

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

**(4) 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
Business type activities:				
Machinery and equipment	\$ 237,135	575	3,715	233,995
Less accumulated depreciation	142,626	13,931	3,053	153,504
Business type activities capital assets, net	<u>\$ 94,509</u>	<u>(13,356)</u>	<u>662</u>	<u>80,491</u>

	Balance			Balance
	Beginning			End
	of Year	Increases	Decreases	of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 919,088	0	0	919,088
Construction in progress	4,535,775	11,003,227	0	15,539,002
Total capital assets not being depreciated	<u>5,454,863</u>	<u>11,003,227</u>	<u>0</u>	<u>16,458,090</u>
Capital assets being depreciated:				
Buildings	14,726,973	114,330	0	14,841,303
Improvements other than buildings	1,270,668	30,606	0	1,301,274
Machinery and equipment	2,803,030	195,318	135,360	2,862,988
Total capital assets being depreciated	<u>18,800,671</u>	<u>340,254</u>	<u>135,360</u>	<u>19,005,565</u>
Less accumulated depreciation for:				
Buildings	7,030,801	456,397	0	7,487,198
Improvements other than buildings	385,443	57,091	0	442,534
Machinery and equipment	2,217,537	184,881	131,950	2,270,468
Total accumulated depreciation	<u>9,633,781</u>	<u>698,369</u>	<u>131,950</u>	<u>10,200,200</u>
Total capital assets being depreciated, net	<u>9,166,890</u>	<u>(358,115)</u>	<u>3,410</u>	<u>8,805,365</u>
Governmental activities capital assets, net	<u>\$ 14,621,753</u>	<u>10,645,112</u>	<u>3,410</u>	<u>25,263,455</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 7,248
Special	2,368
Other	747
Support services:	
Instructional staff	21,660
Operation and maintenance of plant	29,530
Transportation	123,328
	<u>184,881</u>
Unallocated depreciation	<u>513,488</u>
Total governmental activities depreciation expense	<u>\$ 698,369</u>
Business type activities:	
Food service operations	<u>\$ 13,931</u>

**(5) Long-Term Liabilities**

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

	Balance			Balance	Due
	Beginning	Additions	Deletions	End of	Within
	of Year			Year	One Year
Revenue Bonds	\$ 15,375,000	0	590,000	14,785,000	595,000
Early Retirement	360,000	0	200,000	160,000	110,000
Compensated Absences	0	78,320	0	78,320	78,320
Total	\$ 15,735,000	78,320	790,000	15,023,320	783,320

Revenue Bonds

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

Year	Bond Issue of December 1, 2009				
	Ending	Interest	Principal	Interest	Total
June 30,	Rate				
2013	3.00	% \$	595,000	623,357	1,218,357
2014	3.00		600,000	605,432	1,205,432
2015	3.00		710,000	585,783	1,295,783
2016	3.50		705,000	562,795	1,267,795
2017	4.00		720,000	536,057	1,256,057
2018-2022	4.00-4.38		3,775,000	2,232,021	6,007,021
2023-2027	4.40-4.75		4,235,000	1,363,151	5,598,151
2028-2030	5.00		3,445,000	303,750	3,748,750
Total			\$ 14,785,000	6,812,346	21,597,346

The District has pledged future statewide sales, services and use tax revenues to repay the \$16,290,000 of bonds issued on December 1, 2009. The bonds were issued for the purpose of building and furnishing a new middle school, and refunding outstanding project notes issued for said purpose. The bonds are payable solely from the proceeds of statewide sales, services and use tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 63 percent of statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$21,597,346. For the current year, \$590,000 in principal and \$641,133 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$1,940,737.

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

- a) \$1,310,169 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Early Retirement

The District offered a voluntary early retirement plan to its certified employees. Eligible employees must have completed ten years of continuous service to the District in order to qualify for early retirement. Employees who desired to elect early retirement under this program must have completed an application which was required to be approved by the Board of Education. The benefit for certified employees is \$30,000 payable in three equal installments. Early retirement benefits paid during the year ended June 30, 2012, totaled \$200,000. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) Pension and Retirement Benefits**

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

Plan members are required to contribute 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$1,061,549 \$903,052 and \$883,916 respectively, equal to the required contributions for each year.

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 145 active and 45 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Southeast Iowa Health Care (SEIHC). Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit 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 that, 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	\$ 113,552
Interest on net OPEB obligation	(3,062)
Adjustment to annual required contribution	5,132
Annual OPEB cost	<u>115,622</u>
Contributions made	<u>(161,221)</u>
Decrease in net OPEB obligation	(45,599)
Net OPEB obligation beginning of year	<u>(102,080)</u>
Net OPEB obligation end of year	<u><u>\$ (147,679)</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. 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 \$161,221 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 205,826	113.77%	\$ (50,615)
2011	114,579	144.92	(102,080)
2012	115,622	139.44	(147,679)

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was

\$1,408,033, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,408,033. The covered payroll (annual payroll of active employees covered by the plan) was \$8,263,284, and the ratio of the UAAL to covered payroll was 17.04%. As of June 30, 2012, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of 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, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 3% discount rate based on the District's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% 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 probabilities were developed based upon recent Ft. Madison Community School District experience. Termination probabilities were based upon national termination studies performed by the Society of Actuaries and were adjusted to reflect the recent lower termination rates experienced by Fort Madison Community School District.

Projected claim costs of the medical plan are \$860 per month for retirees at the weighted average age 62. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

## **(8) Risk Management**

Fort Madison Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical, dental, vision, basic life and disability.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2012 were \$1,631,983.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$897,030 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.

**(10) Construction Commitment**

The District has entered into various contracts for construction projects. These contracts total \$18,221,250. As of June 30, 2012, costs of \$15,539,002 have been incurred against these contracts. The balance remaining of \$2,682,248 at June 30, 2012 will be paid as work on the projects progresses.

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the non-instructional programs and other expenditures functional areas exceeded the certified budget. Total expenditures for the year also exceeded the budgeted amount.

**(12) Categorical Funding**

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

<u>Program</u>	<u>Amount</u>
Salary improvement program	\$ 95,244
Talented and gifted	45,366
Home school assistance program	2,941
Professional development	62,553
Beginning teacher mentoring	8,854
Dropout and dropout prevention	8,411
Model core curriculum	<u>41,537</u>
Total	<u>\$ 264,906</u>

REQUIRED SUPPLEMENTARY INFORMATION

FORT MADISON 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
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 10,338,507	354,840	10,693,347	10,277,381	10,277,381	415,966
State sources	13,094,062	9,413	13,103,475	13,269,191	13,269,191	(165,716)
Federal sources	1,414,028	642,880	2,056,908	1,655,000	1,655,000	401,908
Total revenues	<u>24,846,597</u>	<u>1,007,133</u>	<u>25,853,730</u>	<u>25,201,572</u>	<u>25,201,572</u>	<u>652,158</u>
Expenditures/expenses:						
Instruction	15,250,794	0	15,250,794	16,505,505	16,505,505	1,254,711
Support services	5,476,509	3,660	5,480,169	6,174,563	6,174,563	694,394
Non-instructional programs	0	1,029,069	1,029,069	1,000,000	1,000,000	(29,069)
Other expenditures	13,293,619	0	13,293,619	10,884,562	11,000,000	(2,293,619)
Total expenditures/expenses	<u>34,020,922</u>	<u>1,032,729</u>	<u>35,053,651</u>	<u>34,564,630</u>	<u>34,680,068</u>	<u>(373,583)</u>
Deficiency of revenues underexpenditures/expenses	(9,174,325)	(25,596)	(9,199,921)	(9,363,058)	(9,478,496)	278,575
Balance beginning of year	<u>24,749,397</u>	<u>280,603</u>	<u>25,030,000</u>	<u>20,994,692</u>	<u>20,994,692</u>	<u>4,035,308</u>
Balance end of year	<u>\$ 15,575,072</u>	<u>255,007</u>	<u>15,830,079</u>	<u>11,631,634</u>	<u>11,516,196</u>	<u>4,313,883</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON 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. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$115,438.

During the year ended June 30, 2012, the expenditures in the non-instructional programs and other expenditures functional areas exceeded the certified budget. Total expenditures for the year also exceeded the budgeted amount.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ( c )	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2008	-	\$ 2,341,703	\$ 2,341,703	0.00%	\$ 7,070,770	33.12%
2011	July 1, 2010	-	1,408,033	1,408,033	0.00%	8,227,535	17.11%
2012	July 1, 2010	-	1,408,033	1,408,033	0.00%	8,263,284	17.04%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Special Revenue		Total Special Revenue Funds	Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity			
<b>Assets</b>					
Cash and pooled investments	\$ 972,068	176,900	1,148,968	2,224,733	3,373,701
Receivables:					
Property tax:					
Delinquent	9,502	0	9,502	0	9,502
Succeeding year	435,900	0	435,900	0	435,900
<b>Total Assets</b>	<b>\$ 1,417,470</b>	<b>176,900</b>	<b>1,594,370</b>	<b>2,224,733</b>	<b>3,819,103</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 5,890	12,752	18,642	0	18,642
Deferred revenue:					
Succeeding year property tax	435,900	0	435,900	0	435,900
Total liabilities	441,790	12,752	454,542	0	454,542
Fund balances:					
Restricted for:					
Management levy purposes	975,680	0	975,680	0	975,680
Student activities	0	164,148	164,148	0	164,148
Debt service	0	0	0	2,224,733	2,224,733
Total fund balances	975,680	164,148	1,139,828	2,224,733	3,364,561
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,417,470</b>	<b>176,900</b>	<b>1,594,370</b>	<b>2,224,733</b>	<b>3,819,103</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue		Total Special Revenue Funds	Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity			
Revenues:					
Local sources:					
Local tax	\$ 579,557	0	579,557	0	579,557
Other	10,091	388,755	398,846	364	399,210
Total revenues	589,648	388,755	978,403	364	978,767
Expenditures:					
Current:					
Instruction:					
Regular	341,255	0	341,255	0	341,255
Other	0	380,112	380,112	0	380,112
Support services:					
Instructional staff	4,953	0	4,953	0	4,953
Administration	6,766	0	6,766	0	6,766
Operation and maintenance of plant	88,189	0	88,189	0	88,189
Transportation	24,303	0	24,303	0	24,303
Long-term debt:					
Principal	0	0	0	590,000	590,000
Interest and fiscal charges	0	0	0	642,882	642,882
Total expenditures	465,466	380,112	845,578	1,232,882	2,078,460
Excess(Deficiency) of revenues over(under) expenditures	124,182	8,643	132,825	(1,232,518)	(1,099,693)
Other financing sources:					
Transfer in	0	0	0	1,229,032	1,229,032
Net change in fund balances	124,182	8,643	132,825	(3,486)	129,339
Fund balance beginning of year	851,498	155,505	1,007,003	2,228,219	3,235,222
Fund balance end of year	\$ 975,680	164,148	1,139,828	2,224,733	3,364,561

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 9,387,506	134,004	9,521,510
Receivables:			
Delinquent	0	2,737	2,737
Succeeding year	0	177,552	177,552
Due from other governments	430,176	0	430,176
<b>Total assets</b>	<b>\$ 9,817,682</b>	<b>314,293</b>	<b>10,131,975</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 1,875,167	82,833	1,958,000
Deferred revenue			
Succeeding year property tax	0	177,552	177,552
Total liabilities	1,875,167	260,385	2,135,552
Fund balances:			
Restricted for:			
School infrastructure	6,632,346	0	6,632,346
Debt service	1,310,169	0	1,310,169
Physical plant and equipment	0	53,908	53,908
Total fund balances	7,942,515	53,908	7,996,423
<b>Total liabilities and fund balances</b>	<b>\$ 9,817,682</b>	<b>314,293</b>	<b>10,131,975</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 1,940,737	168,916	2,109,653
Other	3,313	12	3,325
Total revenues	<u>1,944,050</u>	<u>168,928</u>	<u>2,112,978</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	137,624	0	137,624
Transportation	0	155,698	155,698
Capital outlay	11,163,207	500	11,163,707
Total expenditures	<u>11,300,831</u>	<u>156,198</u>	<u>11,457,029</u>
Excess(Deficiency) of revenues over(under) expenditures	(9,356,781)	12,730	(9,344,051)
Other financing uses:			
Transfer out	(1,229,032)	0	(1,229,032)
Net change in fund balances	(10,585,813)	12,730	(10,573,083)
Fund balances beginning of year	<u>18,528,328</u>	<u>41,178</u>	<u>18,569,506</u>
Fund balances end of year	<u>\$ 7,942,515</u>	<u>53,908</u>	<u>7,996,423</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- fund Transfers	Balance End of Year
Child Health Fund	7,487	2,086	1,993	0	7,580
Activity Account	1,773	186	170	0	1,789
Undistributed Funds	218	479	11	0	686
Vocal Music	3,701	108	646	0	3,163
Instrumental Music	4,332	14,577	12,991	0	5,918
Industrial Tech	2,194	1,647	0	0	3,841
Environmental Club	1,269	0	97	0	1,172
Family and Consumer	1,247	606	864	0	989
Socccer Coed	0	0	430	430	0
Boys Basketball	0	816	2,376	1,560	0
Football	0	0	1,170	1,170	0
Boys track	0	280	558	278	0
Wrestling	0	1,345	1,745	400	0
Girls basketball	0	0	1,255	1,255	0
Volleyball	0	0	585	585	0
Girls Track	0	420	601	181	0
Student Activity	3,897	15,299	14,235	(640)	4,321
Employee Activity Account	1,268	910	359	0	1,819
Student Council	642	0	1,282	640	0
Library Club	2,060	547	55	0	2,552
Prairie fire	2,789	1,389	1,908	0	2,270
Just eliminate	0	632	0	0	632
Science Activity - M.S.	1,162	1,085	1,574	0	673
Speech - Large Group	0	0	794	794	0
Vocal Music	224	0	100	0	124
Instrumental Music	4,795	12,036	11,165	1,809	7,475
Color Guard	368	0	0	0	368
Co-Curricular Act - H.S.	782	13,726	24,029	9,521	0
Gate Receipts	0	72,522	230	(72,292)	0
Soccer Coed	0	3,095	5,045	1,950	0
Soccer - Fund Raiser	21,863	4,050	8,476	3,290	20,727
Cross Country	0	1,219	2,471	1,252	0
Boys Basketball	0	5,300	9,086	3,786	0
Boys Basketball - Fund Raiser	752	11,088	9,815	2,407	4,432
Football	0	0	18,048	18,048	0
Football - Fund Raiser	0	8,436	8,575	246	107
Baseball	0	300	5,827	5,527	0
Baseball - Fund Raiser	5,192	12,540	13,138	104	4,698
Boys Track	0	445	4,565	4,120	0
Boys Tennis	0	0	149	149	0
Boys Golf	0	150	1,004	854	0
Wrestling	0	520	5,243	4,723	0
Wrestling - Fund Raiser	4,924	24,476	11,614	987	18,773
Girls Basketball	0	0	3,448	3,448	0
Girls Basketball-Fund Raiser	1,649	6,143	7,372	1,645	2,065
Volleyball	0	0	6,041	6,041	0
Volleyball - Fund Raiser	3,842	12,382	9,790	3,126	9,560
Softball	0	0	6,164	6,164	0
Softball - Fund Raiser	726	11,233	13,868	1,909	0

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- fund Transfers	Balance End of Year
Girls Track	0	1,075	4,790	3,715	0
GTR/BTR/CC Fund Raiser	730	13,112	11,917	0	1,925
Girls Tennis	0	20	149	129	0
Girls Tennis Fundraiser	1,027	339	546	0	820
Crimson & Black	0	0	0	0	0
Bloodhound Productions	952	406	1,172	0	186
Art Club	744	0	0	0	744
Student Activity Account	0	1,078	2,079	1,001	0
Foreign Language Club	156	0	0	0	156
FFA	125	0	191	66	0
Employee Activity Account	709	0	93	0	616
FCCLA	2,006	42	1,102	49	995
HS Student Government	537	1,744	1,942	0	339
Key Club	2,671	9,790	9,634	396	3,223
Madisonian	17,203	12,358	11,871	(4,687)	13,003
Dist. Educ. Club	262	2,770	2,221	0	811
Building Trades Vica	542	1,145	0	0	1,687
Auto Shop Vica	2,446	540	663	0	2,323
National Honor Society	1,245	396	625	0	1,016
Science Club	1,064	500	1,422	0	142
Varsity club	0	1,615	1,738	123	0
Student Concessions	7,690	70,915	59,222	(19,163)	220
Dance & Drill Team	0	0	1,009	1,009	0
Dance & Drill team fundraising	0	2,902	3,048	146	0
Library Club	791	0	0	0	791
Class of 2011	673	0	673	0	0
Class of 2012	1,091	70	846	(315)	0
Class of 2013	4,084	3,898	6,532	0	1,450
Class of 2014	1,283	583	895	0	971
Class of 2015	0	202	0	0	202
Cheerleaders - Varsity	0	0	800	800	0
Cheerleaders - Fundraiser	2,232	5,333	6,746	0	819
MDT Fundraising	84	0	0	0	84
HS E-reader book club	537	0	10	0	527
CLC	320	300	287	0	333
Student Activity Account	8,352	1,104	1,981	0	7,475
Student Council Account	120	0	0	0	120
Special Education Club	3,446	9,204	9,734	329	3,245
Student Activity Account	3,421	4,142	3,006	0	4,557
Employee Activity Account	57	607	0	0	664
Richardson PTO	0	123	1,107	984	0
Student Activity Account	9,749	369	1,099	(49)	8,970
<b>Total</b>	<b>\$ 155,505</b>	<b>388,755</b>	<b>380,112</b>	<b>0</b>	<b>164,148</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON 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	\$ 9,331,997	9,471,555	8,900,029	8,400,107	8,280,598	8,211,007	7,281,321	7,190,181	7,232,611
Tuition	328,861	256,169	258,118	341,210	234,422	202,458	161,163	174,045	105,802
Other	677,649	606,582	692,970	810,139	987,790	1,028,627	923,719	791,009	714,690
State sources	13,094,062	12,768,847	11,871,380	13,241,057	12,541,859	12,102,102	11,358,669	10,962,706	10,699,317
Federal sources	1,414,028	1,838,699	2,548,558	1,275,077	1,081,517	1,190,701	1,088,627	2,689,181	991,438
Total	\$ 24,846,597	24,941,852	24,271,055	24,067,590	23,126,186	22,734,895	20,813,499	21,807,122	19,743,858
Expenditures:									
Current:									
Instruction:									
Regular	\$ 8,535,366	8,583,331	8,850,173	9,514,098	9,111,831	11,523,634	8,364,811	8,448,219	7,486,971
Special	3,998,469	3,951,481	3,956,482	3,736,493	3,449,199	2,259,659	3,161,927	3,278,363	4,088,149
Other	2,716,959	2,759,360	2,790,953	2,558,234	2,486,387	686,155	2,311,775	2,557,970	1,358,302
Support services:									
Student	462,312	418,488	391,154	386,911	384,748	417,238	429,221	305,392	756,033
Instructional staff	713,150	674,125	494,751	546,549	577,171	652,694	925,657	627,902	256,149
Administration	1,782,364	1,856,438	1,911,327	2,070,548	2,077,442	1,776,244	1,548,184	1,322,744	1,196,868
Operation and maintenance of plant	1,548,358	1,598,903	1,653,567	1,661,348	1,626,188	1,716,868	1,666,626	1,460,757	1,577,535
Transportation	970,325	935,644	793,403	1,014,609	860,144	829,556	725,492	919,733	627,260
Non-instructional programs	0	0	0	0	0	0	0	0	5,578
Capital outlay	11,163,707	3,897,907	1,519,285	1,033,217	1,330,881	486,018	372,502	1,502,725	2,847,114
Long-term debt:									
Principal	590,000	915,000	0	0	0	0	0	0	20,000
Interest	642,882	722,410	500	0	0	0	0	0	5,205
Other expenditures:									
AEA flow-through	897,030	1,000,871	1,003,331	887,992	830,020	809,284	755,127	744,835	757,872
Total	\$ 34,020,922	27,313,958	23,364,926	23,409,999	22,734,011	21,157,350	20,261,322	21,168,640	20,983,036

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	\$ 130,346
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	505,882 *
SUMMER FOOD SERVICE PROGRAM	10.559	FY 12	6,652
			<u>642,880</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 11	5,000
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 12	537,372
ARRA- TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 11	8,368
			<u>550,740</u>
PARENTAL ASSISTANCE CENTERS	84.310	FY 10	2,816
PARENTAL ASSISTANCE CENTERS	84.310	FY 11	344
			<u>3,160</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 12	<u>114,103</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 12	<u>13,741</u>
EDUCATION JOBS FUND	84.410	FY 11	239,758
EDUCATION JOBS FUND	84.410	FY 12	7,010
			<u>246,768</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 12	<u>133,032</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 11	4,207
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 12	21,929
			<u>26,136</u>
TOTAL			<u>\$ 1,730,560</u>

\* - Includes \$52,287 in non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**FORT MADISON COMMUNITY SCHOOL DISTRICT**

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

Independent Auditor's Report 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  
Fort Madison 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 Fort Madison Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 8, 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 Fort Madison Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Fort Madison Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting.

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

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

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a significant deficiency.

## Compliance and Other Matters

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

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

Fort Madison 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 Fort Madison 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 Fort Madison Community School District and other parties to whom Fort Madison 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 Fort Madison 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 8, 2013

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

To the Board of Education of  
Fort Madison Community School District

Compliance

We have audited the compliance of Fort Madison Community School District 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 Fort Madison Community School District's major federal programs for the year ended June 30, 2012. Fort Madison 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 Fort Madison Community School District's management. Our responsibility is to express an opinion on Fort Madison 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 Fort Madison 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 Fort Madison Community School District's compliance with those requirements.

In our opinion, Fort Madison 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 Fort Madison 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 Fort Madison 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, 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 Fort Madison Community School District's internal control over compliance.

A deficiency in the District's internal control over compliance exists when the design or operation of a control 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 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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive style with a large, stylized "N" and "J".

NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2013

FORT MADISON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency 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) No material weaknesses in internal control over major programs were 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 did not disclose any audit findings which were 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:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
    - CFDA Number 10.559 - Summer Food Service Program
  - Individual Programs:
    - CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fort Madison Community School District qualified as a low-risk auditee.

FORT MADISON 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 DEFICIENCIES:

II-A-12 Negative Lunch Account Balances - It was noted during the audit that the Nutrition Fund is carrying numerous negative student and adult lunch account balances on the books. It was noted that some of the negative account balances belonged to Board members as well as staff members.

Recommendation - The District should review their procedures and policies in regard to negative student lunch account balances. The District should try various collection techniques to collect the balances from the families before writing the balances off of the books. Another option would be to give these families a free/reduced lunch application to see if they qualify.

Response - The District will not refuse a student a meal. However the District makes every effort to collect unpaid balances. Letters are sent to parents to try and collect negative balances. At the end of each fiscal year, the District refers accounts that are deemed to be uncollectable to a collection agency.

Conclusion - Response accepted.

OTHER MATTERS:

II-B-12 Student Activity Fund Interest Allocation - We noted during the year that it appears that interest earned within the Student Activity Fund was not allocated during the year.

Recommendation - Interest received in the Student Activity Fund should be allocated amongst the individual activity fund accounts that earned the interest during the year. Allocation of interest should be done at least annually.

Response - The District will allocation interest on an annual basis.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over major programs were noted.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 exceeded the certified amounts in the non-instructional programs and other expenditures functions. Total expenditures for the year also exceeded the budgeted amount

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 District will amend its budget in the future if necessary.

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements -

**Incentive Prizes:** We noted during our audit that the District gave gift cards and cash to students as incentive prizes for fundraisers during the year from the Student Activity Fund. These items do not appear to meet the guidelines for public purpose as defined in the Attorney General's opinion dated April 25, 1979.

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

Response - The District acknowledges the auditor's recommendation; however, the District has decided to continue to allow these purchases. The District will limit the purchase to only these purposes.

Conclusion - Response acknowledged. The District should implement procedures to comply with the Attorney General's opinion dated April 25, 1979.

**Clothing Purchases:** We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

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

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - The District requires coaches to turn clothing items in at end of each season.

Conclusion - Response accepted.

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

However, we noted during our audit that the District reimbursed employees for travel expenses that had no detailed receipts attached for supporting documentation. According to District Board policy 401.7, ‘the employee must provide the school district with a detailed, itemized receipt, other than a credit card receipt, indicating the date, purpose and nature of the expense for each claim item.’

Recommendation - The District should review Board Policy 401.7 with employees to ensure that receipts for all credit card expenses are attached for supporting documentation.

Response - The District will monitor employee reimbursements to ensure that all reimbursements have all required supporting receipts.

Conclusion - Response accepted.

IV-D-12 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tim Lamb, Board Member Official	Services	\$200

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member does not appear to represent a conflict of interest

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

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

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of resident students which was reported was overstated by 2.0 students.

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

Response - The District’s auditor will contact the Iowa Department of Education and Department of Management to resolve this matter.

Conclusion - Response accepted.

IV-H-12 Supplementary Weighting - No variances in basic enrollment data certified to the Iowa Department of Education were noted.

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 filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-12 Categorical Funding - No instances were noted of categorical funding 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 following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

Beginning balance		\$ 18,528,328
Revenues:		
Sales tax revenues	\$ 1,940,737	
Other local revenues	3,313	1,944,050
		<u>20,472,378</u>
Expenditures/transfers out:		
School infrastructure construction	\$ 11,163,207	
Equipment	137,624	
Transfers to other funds:		
Debt service fund	1,229,032	12,529,863
		<u>7,942,515</u>
Ending balance		<u>\$ 7,942,515</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 and 423F of the Code of Iowa.

IV-M-12 Student Activity Fund - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

**Employee Activity Account:** We noted during our audit that the Employee Activity Account appears to be administratively maintained, rather than a student organization.

Recommendation - The Employee Activity Account is not a student run organization and therefore should not be accounted for in the Student Activity Fund. The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. In addition we noted this account purchased hotel gift certificates, flowers, and banners during the year which do not appear to meet the guidelines for public purpose as defined in the Attorney General's opinion dated April 25, 1979 (See IV-B-12). The balance in the Employee Activity Account should be transferred to the General Fund.

Response - The District has decided to continue to account for the Employee Activity Account within the Student Activity Fund.

Conclusion - Response acknowledged. The District should review its procedures to comply with section 298A.8 of the Iowa Department of Education administrative rules.

**Purchases of Instructional Supplies** - We noted during our audit that the District's Library Club, Richardson PTO, Environmental Club, and the Student Activity account within the Student Activity Fund do not appear to be extracurricular in nature.

Recommendation - These receipts and expenditures appear to be more appropriate in the General Fund.

Response - The District will review these accounts and close them to the General Fund.

Conclusion - Response accepted.