

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
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Independent Auditor's Report

To the Board of Education
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine Community School District, Letts, 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. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Louisa-Muscatine Community School District as of 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, I have also issued my report dated February 4, 2013 on my consideration of Louisa-Muscatine Community School District's internal control over financial reporting and my 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 my 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 my audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 43 through 45 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. I 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 my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Louisa-Muscatine Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. Supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. In my opinion, the information set forth in the supplementary information for each of the nine years in the period ended June 30, 2012, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 4, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2012 Financial Highlights

- General Fund revenues increased from \$8,016,307 in fiscal 2011 to \$8,699,052 in fiscal 2012 and General Fund expenditures decreased from \$7,971,674 in fiscal 2011 to \$7,884,813 in fiscal 2012. The District's General Fund balance increased from \$1,686,122 in fiscal 2011 to \$2,504,191 in fiscal 2012, a 49% increase.
- In general, FY12 was a positive one financially. Prior year cost saving measures as well as the use of the ARRA Stimulus money and an increase in state aid helped bolster the financial position of the district. While the ongoing stability and predictability of future funding remains somewhat questionable, the District is well positioned to withstand these challenges.
- The increase in General Fund revenues can be attributed to increases in property tax revenues, state and federal sources and open enrollment tuition.
- General fund expenditures decreased due, in part, to continued implemented budget saving measures and the cost savings in hiring a part-time interim superintendent.
- The District's enrollment again declined for the fifth consecutive year, from 784.6 in FY11 to 763.1 in FY12, a loss of 21.5 students.

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 Louisa-Muscatine 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 Louisa-Muscatine Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining

by providing information about the most significant funds. The remaining statements provide financial information about activities for which Louisa-Muscatine Community School District acts solely as an agent or custodian for the benefit of those outside of the 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 and enterprise funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

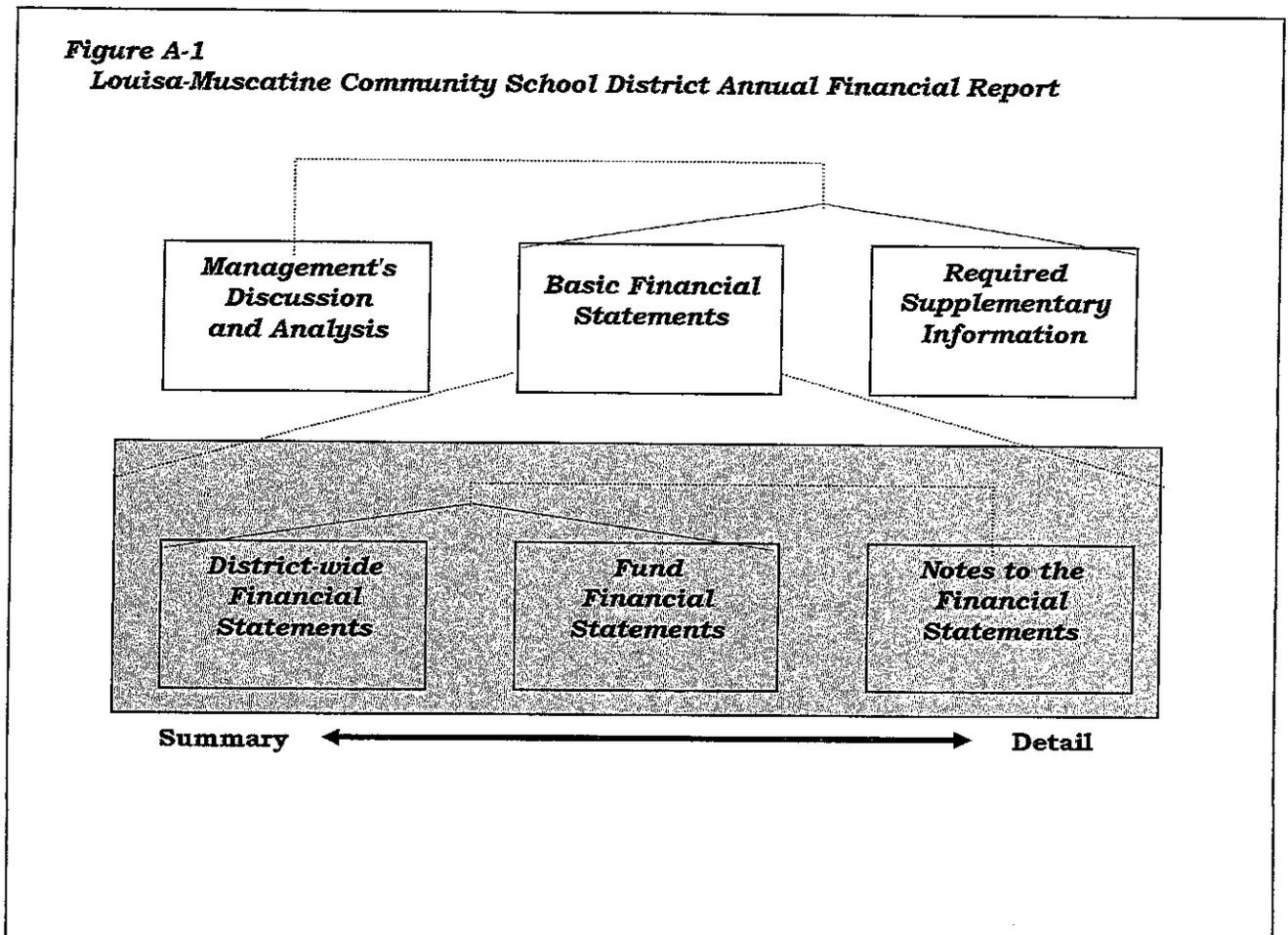


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial 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 and daycare/preschool programs are included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

The required financial statements for 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 two enterprise funds, the School Nutrition Fund and Daycare/Preschool Fund.

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

- 3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a private-purpose trust fund.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business type		Total		Total
	Activities		Activities		District		
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Current and other assets	\$ 9,048,248	\$ 8,605,740	\$ 224,332	\$ 198,947	\$ 9,272,580	\$ 8,804,687	5.31%
Capital assets	<u>11,611,288</u>	<u>11,965,594</u>	<u>243,918</u>	<u>266,149</u>	<u>11,855,206</u>	<u>12,231,743</u>	-3.08%
Total assets	<u>20,659,536</u>	<u>20,571,334</u>	<u>468,250</u>	<u>465,096</u>	<u>21,127,786</u>	<u>21,036,430</u>	0.43%
Long-term liabilities	5,372,024	5,411,477	-	-	5,372,024	5,411,477	-0.73%
Other liabilities	<u>4,093,862</u>	<u>4,264,504</u>	<u>37,596</u>	<u>38,074</u>	<u>4,131,458</u>	<u>4,302,578</u>	-3.98%
Total liabilities	<u>9,465,886</u>	<u>9,675,981</u>	<u>37,596</u>	<u>38,074</u>	<u>9,503,482</u>	<u>9,714,055</u>	-2.17%
Net assets							
Invested in capital assets,							
net of related debt	6,311,288	6,665,594	243,918	266,149	6,555,206	6,931,743	-5.43%
Restricted	2,420,282	2,292,826	-	-	2,420,282	2,292,826	5.56%
Unrestricted	<u>2,462,080</u>	<u>1,936,933</u>	<u>186,736</u>	<u>160,873</u>	<u>2,648,816</u>	<u>2,097,806</u>	26.27%
Total net assets	<u>\$ 11,193,650</u>	<u>\$ 10,895,353</u>	<u>\$ 430,654</u>	<u>\$ 427,022</u>	<u>\$ 11,624,304</u>	<u>\$ 11,322,375</u>	2.67%

The District's combined net assets increased by approximately 3%, or \$301,929, over 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), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$127,456 or approximately 5% over the prior year. The increase can be attributed, in part, to the accumulated funds in the Capital Projects fund for the payment of the tax exempt bond due in 2024.

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 \$551,010, or approximately 26%. This increase in unrestricted net assets was primarily a result of an increase in the General Fund balance.

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

Figure A-4
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011-2012</u>
Revenues							
Program revenues							
Charges for service	\$ 959,258	\$ 939,129	\$ 267,662	\$ 240,914	\$ 1,226,920	\$ 1,180,043	3.97%
Operating grants	1,273,562	1,576,590	204,244	217,244	1,477,806	1,793,834	-17.62%
General revenues							
Property tax	3,613,634	3,527,602	-	-	3,613,634	3,527,602	2.44%
Statewide sales, services and use tax	596,534	538,009	-	-	596,534	538,009	10.88%
Unrestricted state grants	3,121,859	3,010,306	-	-	3,121,859	3,010,306	3.71%
Contributions and donations	29,941	115,386	-	-	29,941	115,386	-74.05%
Unrestricted investment earnings	34,265	29,877	407	615	34,672	30,492	13.71%
Other	<u>13,019</u>	<u>162,285</u>	<u>-</u>	<u>256,167</u>	<u>13,019</u>	<u>418,452</u>	-96.89%
Total revenues	<u>9,642,072</u>	<u>9,899,184</u>	<u>472,313</u>	<u>714,940</u>	<u>10,114,385</u>	<u>10,614,124</u>	-4.71%
Program expenses							
Instruction	5,703,571	5,589,814	-	-	5,703,571	5,589,814	2.04%
Support services	2,443,854	2,370,121	-	-	2,443,854	2,370,121	3.11%
Non-instructional programs	9,641	8,112	468,681	461,704	478,322	469,816	1.81%
Other expenses	1,097,439	1,283,109	-	-	1,097,439	1,283,109	-14.47%
Loss on disposal of capital assets	<u>89,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,270</u>	<u>-</u>	100.00%
Total expenses	<u>9,343,775</u>	<u>9,251,156</u>	<u>468,681</u>	<u>461,704</u>	<u>9,812,456</u>	<u>9,712,860</u>	1.03%
Changes in net assets	298,297	648,028	3,632	253,236	301,929	901,264	-66.50%

Net assets, beginning of year	<u>10,895,353</u>	<u>10,247,325</u>	<u>427,022</u>	<u>173,786</u>	<u>11,322,375</u>	<u>10,421,111</u>	8.65%
Net assets, end of year	<u>\$ 11,193,650</u>	<u>\$ 10,895,353</u>	<u>\$ 430,654</u>	<u>\$ 427,022</u>	<u>\$ 11,624,304</u>	<u>\$ 11,322,375</u>	2.67%

In fiscal 2012, property tax and unrestricted state grants account for 70% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for almost 100% of the revenue from business type activities. The District's total revenues were \$10,114,385 of which \$9,642,072 was for governmental activities and \$472,313 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5% decrease in revenues and a 1% increase in expenses. The decrease in revenues can be attributed, in part, to a decrease in grant revenues. The slight increase in expenditures is a result of carefully monitoring expenditures in these uncertain economic times.

Governmental Activities

Revenues for governmental activities were \$9,642,072 and expenses were \$9,343,775 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, non-instructional programs and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-2012	2012	2011	Change 2011-2012
Instruction	\$ 5,703,571	\$ 5,589,814	2.0%	\$ 3,772,111	\$ 3,416,251	10.4%
Support services	2,443,854	2,370,121	3.1%	2,443,854	2,361,851	3.5%
Non-instructional programs	9,641	8,112	18.8%	9,641	8,112	18.8%
Other expenses	<u>1,097,439</u>	<u>1,283,109</u>	<u>-14.5%</u>	<u>796,079</u>	<u>949,223</u>	<u>-16.1%</u>
Total expenses	<u>\$ 9,254,505</u>	<u>\$ 9,251,156</u>	<u>0.0%</u>	<u>\$ 7,021,685</u>	<u>\$ 6,735,437</u>	<u>4.2%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$959,258.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,273,562.
- The net cost of governmental activities was financed with \$3,613,634 in property taxes and \$3,121,859 in unrestricted state grants.

Business Type Activities

Revenues for business type activities for the year ended June 30, 2012 were \$472,313, representing a 34% decrease from the prior year while expenses totaled \$468,681 a 2% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool/Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Revenues in FY11 included contributed capital from the Jr/Sr High remodeling project, causing a reversal of the 34% increase in FY11's revenues in FY12. The 2% increase in expenses can be attributed, in part, to the usual increases in personnel and supply costs.

INDIVIDUAL FUND ANALYSIS

As previously noted, Louisa-Muscatine 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 a combined fund balance of \$4,727,939, significantly above last year's ending fund balances of \$3,945,774. The primary reason for the increase in combined fund balances at the end of fiscal year 2012 is due to increased balances in the Capital Project and General Funds.

Governmental Fund Highlights

- The General Fund balance increased from \$1,686,122 in 2011 to \$2,504,191 in fiscal 2012. The District's improved General Fund financial position is attributable to revenues exceeding expenditures as budgets have been carefully monitored in these times of unpredictable funding.
- The Capital Project - Statewide Sales, Services and Use Tax Fund balance increased from \$1,377,727 in fiscal 2011 to \$1,848,229 in fiscal 2012. This balance builds as SAVE revenues are accumulated in the sinking fund for retirement of the tax exempt bond in 2024.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$427,022 at June 30, 2011 to \$430,654 at June 30, 2012, representing an increase of approximately 1%. This increase is a result, in part, of increased tuition received by Busy Hands for the 5 year old program.

BUDGETARY HIGHLIGHTS

During the fiscal year, Louisa-Muscatine Community School District did not amend its annual budget.

The District's revenues were \$393,563 more than budgeted revenues, a variance of approximately 4%. The budget is certified in the spring prior to the beginning of the

fiscal year. At that time there are many things still unknown for certain, such as grant amounts, open enrollment tuition and other miscellaneous sources of income.

Overall total expenditures were \$1,116,865 less than budgeted. It is the District's practice to budget expenditures at levels up to the maximum authorized spending authority for most funds, then to control and manage spending through the line-item budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$11,855,206, 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 represents a net decrease of 3.08% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$613,071.

The original cost of the District's capital assets was \$21,749,141. Governmental funds account for \$21,308,164, with the remainder of \$440,977 accounted for in the Proprietary Funds.

The largest change in capital asset activity occurred in improvements, other than buildings category, from \$164,810 in 2011 to \$306,965 in 2012. The increase can be attributed to improvements such as the expansion of the high school parking lot and soft-tile playground surfacing at the elementary.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total Change
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2011- 2012</u>
Land	\$ 90,976	\$ 90,976	\$ -	\$ -	\$ 90,976	\$ 90,976	0.00%
Buildings and improvements	10,794,641	11,322,155	-	-	10,794,641	11,322,155	-4.66%
Improvements, other than buildings	306,965	164,810	-	-	306,965	164,810	86.25%
Furniture and equipment	418,706	387,653	243,918	266,149	662,624	653,802	1.35%
Totals	<u>\$11,611,288</u>	<u>\$11,965,594</u>	<u>\$243,918</u>	<u>\$266,149</u>	<u>\$11,855,206</u>	<u>\$12,231,743</u>	-3.08%

Long-Term Debt

At June 30, 2012, the District had \$5,372,024 in general obligation and other long-term debt outstanding. This represents a decrease of less than 1% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

This district continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$11.6 million.

Figure A-7

	Outstanding Long-term Obligations		
	Total	Total	
	District	Change	
	<u>2012</u>	<u>2011</u>	<u>2011-</u> <u>2012</u>
QSCB Revenue bonds	\$ 5,300,000	\$ 5,300,000	0.00%
Termination benefits	25,000	80,000	-68.75%
Net OPEB liability	<u>47,024</u>	<u>31,477</u>	49.39%
Total	<u>\$ 5,372,024</u>	<u>\$ 5,411,477</u>	-0.73%

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 allowable growth increase for fiscal year 2013 was set at 2%. At this time, allowable growth for fiscal year 2014 is unknown. The certified enrollment figures reported in October, 2012, which will be the basis for the District's state spending for fiscal year 2014, decreased by only 3 students. The previous five years enrollment resulted in double-digit declines each year.
- The District's General Fund balance increased during fiscal year 2012. The General Fund unassigned balance increased from \$1,527,390 at June 30, 2011 to \$2,311,541 at June 30, 2012. This balance will decline during the upcoming years due to the inability to levy cash reserve.
- In fiscal year 2013, the Board of Education voted to continue the Instructional Support Levy for another five years.

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 Karron Stineman, Board Secretary/Treasurer and Business Manager, Louisa-Muscatine Community School District, 14478 170th Street, Letts, Iowa 52754.

Basic Financial Statements

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents			
Investment with fiscal agent	\$ 965,923	\$ -	\$ 965,923
Other	4,302,629	215,065	4,517,694
Receivables			
Property tax			
Delinquent	62,814	-	62,814
Succeeding year	2,925,007	-	2,925,007
Accounts receivable	283,496	200	283,696
Income surtax	288,837	-	288,837
Due from other governments	219,542	-	219,542
Inventories	-	9,067	9,067
Non-depreciable capital assets	90,976	-	90,976
Capital assets, net of accumulated depreciation	11,520,312	243,918	11,764,230
Total assets	20,659,536	468,250	21,127,786
Liabilities			
Accounts payable	225,233	170	225,403
Salaries and benefits payable	868,362	33,665	902,027
Accrued interest payable	75,260	-	75,260
Deferred revenue			
Succeeding year property tax	2,925,007	-	2,925,007
Other	-	3,761	3,761
Long-term liabilities			
Portion due within one year			
Termination benefits payable	25,000	-	25,000
Portion due after one year			
Revenue QSCB bonds payable	5,300,000	-	5,300,000
Net OPEB liability	47,024	-	47,024
Total liabilities	9,465,886	37,596	9,503,482

See notes to Financial Statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2012

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 6,311,288	\$243,918	\$ 6,555,206
Restricted for			
Categorical funding	192,650	-	192,650
Management levy purposes	87,215	-	87,215
Physical plant and equipment	236,639	-	236,639
Student activities	55,549	-	55,549
School infrastructure	1,848,229	-	1,848,229
Unrestricted	<u>2,462,080</u>	<u>186,736</u>	<u>2,648,816</u>
Total net assets	<u>\$11,193,650</u>	<u>\$430,654</u>	<u>\$11,624,304</u>

See notes to Financial Statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2012

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Business Type Activities	Total
Governmental activities						
Instruction						
Regular instruction	\$ 3,560,113	\$ 806,151	\$ 874,684	\$ -	\$ (1,879,278)	\$ (1,879,278)
Special instruction	982,457	149,257	93,383	-	(739,817)	(739,817)
Other instruction	1,161,001	3,850	4,135	-	(1,153,016)	(1,153,016)
	5,703,571	959,258	972,202	-	(3,772,111)	(3,772,111)
Support services						
Student	195,162	-	-	-	(195,162)	(195,162)
Instructional staff	355,152	-	-	-	(355,152)	(355,152)
Administration	841,084	-	-	-	(841,084)	(841,084)
Operation and maintenance of plant	597,340	-	-	-	(597,340)	(597,340)
Transportation	455,116	-	-	-	(455,116)	(455,116)
	2,443,854	-	-	-	(2,443,854)	(2,443,854)
	9,641	-	-	-	(9,641)	(9,641)
Non-instructional programs						
Other expenses						
Facilities acquisition	171,188	-	-	-	(171,188)	(171,188)
Long-term debt interest	152,021	-	-	-	(152,021)	(152,021)
AEA flowthrough	301,360	-	301,360	-	-	-
Depreciation (unallocated) *	472,870	-	-	-	(472,870)	(472,870)
	1,097,439	-	301,360	-	(796,079)	(796,079)
	9,254,505	959,258	1,273,562	-	(7,021,685)	(7,021,685)
Total governmental activities						

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2012

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<u>Functions/Programs (continued)</u>						
Business type activities						
Non-instructional programs						
Food service operations	\$ 438,357	\$ 210,508	\$ -	\$ -	\$ (23,605)	\$ (23,605)
Daycare/preschool program	30,324	57,154	-	-	26,830	26,830
Total business type activities	468,681	267,662	-	-	3,225	3,225
Total	\$ 9,723,186	\$ 1,226,920	\$ 1,477,806	\$ -	3,225	(7,018,460)
<u>General Revenues</u>						
Property tax levied for						
General purposes				3,371,200	-	3,371,200
Capital outlay				242,434	-	242,434
Statewide sales, services and use tax				596,534	-	596,534
Unrestricted state grants				3,121,859	-	3,121,859
Contributions and donations				29,941	-	29,941
Unrestricted investment earnings				34,265	407	34,672
Other				13,019	-	13,019
Special item - loss on sale of assets				(89,270)	-	(89,270)
Total general revenues and special item				7,319,982	407	7,320,389
Change in net assets				298,297	3,632	301,929
Net assets, beginning of year				10,895,353	427,022	11,322,375
Net assets, end of year				\$ 11,193,650	\$ 430,654	\$ 11,624,304

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2012

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 3,174,069	\$ 693,659	\$ 434,901	\$4,302,629
Investment with fiscal agent	-	965,923	-	965,923
Receivables				
Property tax				
Delinquent	55,441	-	7,373	62,814
Succeeding year	2,508,530	-	416,477	2,925,007
Accounts receivable	283,496	-		283,496
Income surtax	259,953	-	28,884	288,837
Due from other governments	30,839	188,647	56	219,542
Total assets	<u>\$6,312,328</u>	<u>\$1,848,229</u>	<u>\$ 887,691</u>	<u>\$9,048,248</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 158,422	\$ -	\$ 66,811	\$ 225,233
Salaries and benefits payable	868,362	-	-	868,362
Deferred revenue				
Succeeding year property tax	2,508,530	-	416,477	2,925,007
Income surtax	259,953	-	28,884	288,837
Other	12,870	-	-	12,870
Total liabilities	<u>3,808,137</u>	<u>-</u>	<u>512,172</u>	<u>4,320,309</u>
Fund balances				
Restricted for				
Categorical funding	192,650	-	-	192,650
Management levy purposes	-	-	112,215	112,215
Student activities	-	-	55,549	55,549
School infrastructure	-	1,848,229	-	1,848,229
Physical plant and equipment	-	-	207,755	207,755
Unassigned	2,311,541	-	-	2,311,541
Total fund balances	<u>2,504,191</u>	<u>1,848,229</u>	<u>375,519</u>	<u>4,727,939</u>
Total liabilities and fund balances	<u>\$6,312,328</u>	<u>\$1,848,229</u>	<u>\$ 887,691</u>	<u>\$9,048,248</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2012

Exhibit D

Total fund balances of governmental funds	\$ 4,727,939
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.	11,611,288
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	301,707
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.	(75,260)
Long-term liabilities, including bonds payable, termination benefits and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,372,024)</u>
Net assets of governmental activities	<u>\$11,193,650</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit E

Revenues	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Local sources				
Local tax	\$3,275,062	\$ 596,534	\$ 345,222	\$4,216,818
Tuition	793,894	-		793,894
Other	72,454	28,488	141,646	242,588
State sources	4,154,016	-	145	4,154,161
Federal sources	403,626	-	-	403,626
Total revenues	<u>8,699,052</u>	<u>625,022</u>	<u>487,013</u>	<u>9,811,087</u>
Expenditures				
Current				
Instruction				
Regular	3,445,313	-	174,125	3,619,438
Special	973,189	-	7,286	980,475
Other	1,033,131	-	123,549	1,156,680
	<u>5,451,633</u>	<u>-</u>	<u>304,960</u>	<u>5,756,593</u>
Support services				
Student	193,110	-	638	193,748
Instructional staff	348,094	-	6,335	354,429
Administration	735,318	2,500	95,266	833,084
Operation and maintenance of plant	502,583	-	85,945	588,528
Transportation	352,715	-	138,834	491,549
	<u>2,131,820</u>	<u>2,500</u>	<u>327,018</u>	<u>2,461,338</u>
Non-instructional programs	-	-	9,641	9,641
Other expenditures				
Facilities acquisition	-	-	351,799	351,799
Long-term debt				
Interest and fiscal charges	-	-	152,021	152,021
AEA flowthrough	301,360	-	-	301,360
	<u>301,360</u>	<u>-</u>	<u>503,820</u>	<u>805,180</u>
Total expenditures	<u>7,884,813</u>	<u>2,500</u>	<u>1,145,439</u>	<u>9,032,752</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

Exhibit E

	<u>General</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 814,239	\$ 622,522	\$ (658,426)	\$ 778,335
Other financing sources (uses)				
Proceeds from disposal of capital assets	3,830	-	-	3,830
Interfund operating transfers in	-	-	453,658	453,658
Interfund operating transfers (out)	-	(152,020)	(301,638)	(453,658)
Total other financing sources (uses)	<u>3,830</u>	<u>(152,020)</u>	<u>152,020</u>	<u>3,830</u>
Net change in fund balances	818,069	470,502	(506,406)	782,165
Fund balance, beginning of year	<u>1,686,122</u>	<u>1,377,727</u>	<u>881,925</u>	<u>3,945,774</u>
Fund balance, end of year	<u>\$2,504,191</u>	<u>\$1,848,229</u>	<u>\$ 375,519</u>	<u>\$4,727,939</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2012

Exhibit F

Net change in fund balances - total governmental funds \$782,165

**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. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	\$326,180	
Loss on disposal of capital assets	(93,100)	
Depreciation expense	<u>(587,386)</u>	(354,306)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds. (169,015)

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 governmental funds, as follows:

Termination benefits	55,000	
Other postemployment benefits	<u>(15,547)</u>	<u>39,453</u>

Change in net assets of governmental activities \$298,297

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2012

Exhibit G

	<u>Nonmajor Enterprise Funds</u>
Assets	
Cash and cash equivalents	\$ 215,065
Accounts receivable	200
Inventories	9,067
Capital assets, net of accumulated depreciation	<u>243,918</u>
Total assets	<u>468,250</u>
 Liabilities	
Accounts payable	170
Salaries and benefits payable	33,665
Deferred revenue	<u>3,761</u>
Total liabilities	<u>37,596</u>
 Net Assets	
Invested in capital assets	243,918
Unrestricted	<u>186,736</u>
Total net assets	<u>\$ 430,654</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

Exhibit H

	<u>Nonmajor Enterprise Funds</u>
Operating revenue	
Local sources	
Charges for service	\$267,662
Operating expenses	
Instruction - Preschool/Daycare program	
Regular	
Salaries	22,213
Benefits	4,463
Purchased services	999
Supplies	1,957
Depreciation	692
	<u>30,324</u>
Support services - Food service operations	
Administration	
Salaries	23,976
Benefits	3,629
Purchased services	1,999
	<u>29,604</u>
Non-instructional programs	
Food service operations	
Salaries	160,950
Benefits	31,872
Purchased services	5,644
Supplies	185,294
Depreciation	24,993
	<u>408,753</u>
Total operating expenses	<u>468,681</u>
Operating loss	<u>(201,019)</u>
Non-operating revenue	
Interest income	407
State sources	3,782
Federal sources	200,462
Total non-operating revenue	<u>204,651</u>
Net income	3,632
Net assets, beginning of year	427,022
Net assets, end of year	<u>\$430,654</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

Exhibit I

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 264,029
Cash payments to employees for services	(237,209)
Cash payments to suppliers for goods and services	<u>(173,368)</u>
Net cash (used in) operating activities	<u>(146,548)</u>
Cash flows from non-capital financing activities	
State grants received	3,782
Federal grants received	<u>173,173</u>
Net cash provided by non-capital financing activities	<u>176,955</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(3,454)</u>
Cash flows from investing activities	
Interest on investments	<u>407</u>
Net increase in cash and cash equivalents	27,360
Cash and cash equivalents, beginning of year	<u>187,705</u>
Cash and cash equivalents, end of year	<u><u>\$ 215,065</u></u>
Reconciliation of operating (loss) to net cash (used in) operating activities	
Operating (loss)	\$(201,019)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities	
Depreciation	25,685
Commodities used	27,289
(Increase) in accounts receivable	(200)
Decrease in inventory	2,175
(Decrease) in accounts payable	(6,939)
(Decrease) in deferred revenue	(3,433)
Increase in accrued salaries and benefits	<u>9,894</u>
Net cash (used in) operating activities	<u><u>\$(146,548)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2012 the District received \$27,289 of federal commodities.

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2012

Exhibit J

	<u>Private Purpose Trust</u> <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$1,500
Deductions	
Instruction, regular	
Scholarships	<u>1,500</u>
Change in net assets	-
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u>\$ -</u>

See notes to financial statements.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012

Note 1. Summary of Significant Accounting Policies

The Louisa-Muscatine Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and a preschool/daycare program. The geographic area served includes the Cities of Letts, Grandview and Fruitland, Iowa, and the agricultural territory in Louisa and Muscatine 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, Louisa-Muscatine 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 Louisa-Muscatine Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in jointly governed organizations that provide services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Louisa County and Muscatine County Assessor's Conference Boards.

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 the following categories:

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

The Capital Project – Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales, services and use tax to be expended for school infrastructure purposes.

The District reports no major proprietary funds.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if 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, termination benefits and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust and The Education Liquidity Fund Institutional Money Market Fund which are valued at amortized cost under the Investment Company Act of 1940.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

The Education Liquidity Fund Institutional Money Market Fund is a "money market fund" that seeks to maintain a stable net asset value of \$1.00 per share. The Fund qualifies as a legal investment for the District under Iowa Law.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % 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, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$3,500
Buildings	\$3,500
Improvements other than buildings	\$3,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$3,500

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	5-40 years
Improvements other than buildings	15-20 years
Intangibles	5-10 years
Furniture and equipment	3-20 years

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

Termination Benefits - District employees meeting certain requirements are eligible for early retirement termination benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The termination benefit liability has been computed based on rates of pay in effect at June 30, 2012. The termination

benefit liability attributable to the governmental activities will be paid primarily from the Management Fund.

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 federal grant proceeds, property tax receivables and income surtax receivables not collected within sixty days after year end.

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

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

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

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$87,215 for management levy purposes, \$236,639 for physical plant and equipment, \$55,549 for student activities and \$1,848,229 for school infrastructure.

E. Budgeting and Budgetary Accounting

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

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; 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 Education Liquidity Fund Institutional Money Market Fund totaling \$100,061, which is also valued at an amortized cost pursuant to Rule 21-7 under the Investment Company Act of 1940.

At June 30, 2012, the District also had \$155,305 invested in the Iowa Schools Joint Investment Trust, diversified portfolio. The investments in the Iowa Schools Joint Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. Because the Education Liquidity Fund Institutional Money Market Fund (the Fund) invests in short-term securities, a decline in interest rates will affect the Fund's yields as these securities mature or are sold and the Fund purchases new short-term securities with lower yields. Generally, an increase in interest rates causes the value of a debt instrument to decrease. The change in value for shorter-term securities is usually smaller than for securities with longer maturities.

Credit risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The Education Liquidity Fund Institutional Money Market Fund invests in securities issued by the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The entities while chartered or sponsored by the U.S. Congress, are not funded by appropriations from the U.S. Congress and the debt or mortgage related securities issued by them are neither guaranteed nor insured by the United States Government. Nevertheless, the Education Liquidity Fund Institutional Money Market Fund will invest in only highly rated securities to minimize

credit risk. These investments were not rated by Moody's Investor or Standard and Poor's services.

The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor's Financial Service. The District places no limit on the amount that may be invested in any one issuer. The investments in the Iowa Schools Joint Investment Trust and the Education Liquidity Fund Institutional Money Market Fund accounted for 61% and 39%, respectively, of the District's total investments.

Note 3. Interfund Transfers

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

Transfer To	Transfer From	Amount
Nonmajor governmental Debt service	Capital Projects Statewide sales, services and use tax	\$ 152,020
Nonmajor governmental Physical Plant and Equipment Levy	Nonmajor governmental Debt service	<u>301,638</u>
		<u>\$ 453,658</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expand the resources. The transfer from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for payment of principal and interest on long-term debt.

Note 4. Capital Assets

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

<u>Governmental activities</u>	Balance, Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 90,976	\$ -	\$ -	\$ 90,976
Capital assets being depreciated:				
Buildings and improvements	18,607,986	4,980	(178,741)	18,434,225
Improvements other than buildings	905,705	175,631	-	1,081,336
Furniture and equipment	<u>1,660,777</u>	<u>145,569</u>	<u>(104,719)</u>	<u>1,701,627</u>
Total capital assets being depreciated	<u>21,174,468</u>	<u>326,180</u>	<u>(283,460)</u>	<u>21,217,188</u>

Less accumulated depreciation for:				
Buildings and improvements	7,285,831	439,394	(85,641)	7,639,584
Improvements other than buildings	740,895	33,476	-	774,371
Furniture and equipment	<u>1,273,124</u>	<u>114,516</u>	<u>(104,719)</u>	<u>1,282,921</u>
Total accumulated depreciation	<u>9,299,850</u>	<u>587,386</u>	<u>(190,360)</u>	<u>9,696,876</u>
Total capital assets being depreciated, net	<u>11,874,618</u>	<u>(261,206)</u>	<u>(93,100)</u>	<u>11,520,312</u>
Governmental activities capital assets, net	<u>\$ 11,965,594</u>	<u>\$ (261,206)</u>	<u>\$ (93,100)</u>	<u>\$ 11,611,288</u>
Business type activities				
Furniture and equipment	\$ 435,198	\$ 3,454	\$ (2,325)	\$ 440,977
Less accumulated depreciation	<u>169,049</u>	<u>25,685</u>	<u>(2,325)</u>	<u>197,059</u>
Business type activities capital assets, net	<u>\$ 266,149</u>	<u>\$ (22,231)</u>	<u>\$ -</u>	<u>\$ 243,918</u>

Depreciation expense was charged to the following functions:

Governmental activities	
Instruction	
Regular	\$ 1,412
Other	1,982
Support services	
Student support	970
Administration	6,553
Operation and maintenance of plant	8,175
Transportation	<u>95,424</u>
	114,516
Unallocated depreciation	<u>472,870</u>
Total governmental activities depreciation expense	<u>\$ 587,386</u>
Business type activities	
Food services	\$ 24,993
Preschool	<u>692</u>
Total business type activities depreciation expense	<u>\$ 25,685</u>

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities:					
QSCB revenue bonds	\$ 5,300,000	\$ -	\$ -	\$ 5,300,000	\$ -
Termination benefits	80,000	-	(55,000)	25,000	25,000
Net OPEB liability	<u>31,477</u>	<u>15,547</u>	<u>-</u>	<u>47,024</u>	<u>-</u>
Totals	<u>\$ 5,411,477</u>	<u>\$ 15,547</u>	<u>\$ (55,000)</u>	<u>\$ 5,372,024</u>	<u>\$ 25,000</u>

Interest costs incurred and charged to expense on all long-term debt was \$150,521 for the year ended June 30, 2012. Payments on the Revenue bonds are made from the Statewide Sales, Services and Use Tax Fund.

Termination Benefits

During the fiscal year ended June 30, 2010, the District offered a voluntary early retirement plan to its certified employees, who met certain eligibility guidelines. This voluntary early retirement plan was offered only for the 2009-2010 school year. Eligible employees were required to be at least age fifty-five and have completed twenty years of consecutive contracted full-time service to the District. Employees were required to complete an application, which was approved by the Board of Education. Benefits were based on one-half of the retiring employee's placement on the salary schedule (excluding extra duty increments, phase monies or extended contracts) up to \$25,000. Benefits are paid in five equal installments over five fiscal years, beginning with the year ended June 30, 2010. The District did not offer a voluntary early retirement plan for the year ended June 30, 2012. Actual termination benefit expenditures for the year ended June 30, 2012 were \$55,000. At June 30, 2012, the District had obligations to six participants totaling of \$25,000. This long-term liability is generally liquidated with funds from the Management Levy.

QSCB Revenue Bonds

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of November 17, 2009			
	Interest Rates	Interest	Principal	Total
2013	2.84	\$ 150,520	\$ -	\$ 150,520
2014	2.84	150,520	-	150,520
2015	2.84	150,520	-	150,520
2016	2.84	150,520	-	150,520
2017	2.84	150,520	-	150,520
2018-2022	2.84	752,600	-	752,600
2023-2025	2.84	<u>376,300</u>	<u>5,300,000</u>	<u>5,676,300</u>
Totals		<u>\$ 1,881,500</u>	<u>\$ 5,300,000</u>	<u>\$ 7,181,500</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$5,300,000 of bonds issued in November 2009. The bonds were issued for the purpose of financing a portion of the costs of a geothermal system and remodeling project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2025. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual interest payments on the bonds are expected to require approximately 30 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$7,181,500. For the current year, no principal was paid on the bonds; however \$150,520 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$596,534.

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

- a) Proceeds of the bonds were deposited into the Project Account, which was used to finance the construction project. Interest earned by the Project Account shall remain in the Project Account and be spent in accordance with the resolution and applicable provisions of the Code.
- b) All proceeds from the statewide sales, services and use tax shall be placed in the Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into the Sinking Account to pay the principal and interest requirements of the revenue bonds.
- 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.
- e) \$225,531 of the proceeds from issuance of the revenue bonds shall be deposited to the Sinking Account to be used solely for the purpose of paying principals and interest on the bonds if insufficient money is available in the Revenue Account.

Note 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, IA, 50306-9117.

Plan members are required to contribute 5.38%, 4.50% and 4.30 % of their annual covered salary and the District is required to contribute 8.07%, 6.95% and 6.65% of annual covered payroll for the years ended June 30, 2012, 2011 and 2010 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$428,608, \$369,429 and \$355,490, respectively, equal to the required contributions for each year.

Note 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 137 active, of which 95 elected out of coverage, and 14 retired members in the plan. Participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. Upon retirement, the retired participant is assumed to pay 100 percent of the required premium. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

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

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

Annual required contribution	\$ 25,554
Interest on net OPEB obligation	787
Adjustment to annual required contribution	<u>(2,473)</u>
Annual OPEB cost	23,868
Contributions made	<u>(8,321)</u>
Increase in net OPEB obligation	15,547
Net OPEB obligation beginning of year	<u>31,477</u>
Net OPEB obligation end of year	<u>\$ 47,024</u>

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

For the year ended June 30, 2012, the District contributed \$8,321 to the medical plan. Plan members eligible for benefits contributed \$5,000 or 60% 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 <u>June 30,</u>	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2010	\$ 24,031	34.8%	\$ 15,676
2011	24,122	34.5%	\$ 31,477
2012	23,868	34.9%	\$ 47,024

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$209,184, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$209,184. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.3 million and the ratio of UAAL to covered payroll was 3.9%. 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 value of assets, consistent with the long-term perspective of the calculations.

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

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected premiums of the medical plan are \$1,535 per month for retirees less than age 65 and \$1,535 per month for retirees who have attained age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

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

Note 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 \$301,360 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.

Note 10. Related Party Transactions

During the year ended June 30, 2012, the District entered into business transactions totaling \$5,257 with Kemp and Son, Inc., a company partly owned by Board President Angie Kemp. The transactions were for snow removal and repairs and were entered into through the competitive bidding process.

Note 11. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2012, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 12. New Governmental Accounting Standards Board (GASB) Statements

As of June 30, 2012, the GASB had issued several statements not yet required to be implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District with its year ending June 30, 2013. This Statement is intended to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnerships. Specifically, this Statement improves financial reporting by establishing recognition, measurement and disclosure requirements SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34* issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for governmental financial reporting entities by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statements to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that

GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued April 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Concepts Statement (CON) No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in CON4. Based on those definitions, this Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, the Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.
- GASB Statement No. 66, *Technical Corrections – 2012*, issued April 2012, will be effective for the District with its year ending June 30, 2014. This Statement enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This Statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement also amends GASB Statement No. 61, *Codification of Accounting and*

Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement, by modifying the specific guidance on accounting for: (a) operating lease payments that vary from a straight-line basis; (b) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans; and (c) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases* and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

- GASB Statement No. 67, *Financial Reporting for Pension Plans*, issued June 2012, will be effective for the District beginning with its year ending June 30, 2014. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust ofr paying retirement benefits) and a statement of changes in fiduciary net position. This Statement enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. This Statements also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued June 2012, will be effective for the District beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefits to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The District's management has not yet determined the effect these GASB Statements will have on the District's financial statements.

Note 13. Categorical Funding

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

<u>Program</u>	
Home school assistance program	\$ 240
At-risk	41,029
Returning dropout and dropout prevention program	45,344
Teacher salary supplement	515
Class size reduction	24,105
Statewide voluntary preschool	58,433
Educator quality, professional development for model core curriculum	4,651
Educator quality, professional development	<u>18,333</u>
	<u>\$ 192,650</u>

Required Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2012

	Governmental Funds		Proprietary Funds		Total Actual	Budgeted Amounts		Final to Actual Variance
	Actual		Actual			Original	Final	
Revenues								
Local sources	\$5,253,300		\$268,069		\$5,521,369	\$ 5,149,413	\$5,149,413	\$ 371,956
State sources	4,154,161		3,782		4,157,943	4,360,424	4,360,424	(202,481)
Federal sources	403,626		200,462		604,088	380,000	380,000	224,088
Total revenues	<u>9,811,087</u>		<u>472,313</u>		<u>10,283,400</u>	<u>9,889,837</u>	<u>9,889,837</u>	<u>393,563</u>
Expenditures/Expenses								
Instruction	5,756,593		30,324		5,786,917	6,100,940	6,100,940	314,023
Support services	2,461,338		29,604		2,490,942	3,154,925	3,154,925	663,983
Non-instructional programs	9,641		408,753		418,394	461,709	461,709	43,315
Other expenditures	805,180		-		805,180	900,724	900,724	95,544
Total expenditures/expenses	<u>9,032,752</u>		<u>468,681</u>		<u>9,501,433</u>	<u>10,618,298</u>	<u>10,618,298</u>	<u>1,116,865</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	778,335		3,632		781,967	(728,461)	(728,461)	1,510,428
Net other financing sources	<u>3,830</u>		-		<u>3,830</u>	-	-	<u>3,830</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	782,165		3,632		785,797	(728,461)	(728,461)	1,514,258
Balance, beginning of year	3,945,774		427,022		4,372,796	3,267,747	3,267,747	1,105,049
Balance, end of year	<u>\$4,727,939</u>		<u>\$430,654</u>		<u>\$5,158,593</u>	<u>\$ 2,539,286</u>	<u>\$2,539,286</u>	<u>\$2,619,307</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary 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 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 or expenses 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$209,184	\$209,184	\$ -	\$5,348,845	3.9%
2011	July 1, 2009	-	209,184	209,184	-	5,541,441	3.8%
2012	July 1, 2009	-	209,184	209,184	-	5,367,898	3.9%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2012

Schedule 1

	Special Revenue		Capital Projects Physical Plant and Equipment	Total
	Student Activity	Management Levy	Levy	
Assets				
Cash and pooled investments	\$ 55,549	\$ 114,240	\$ 265,112	\$ 434,901
Receivables				
Property tax				
Delinquent	-	3,044	4,329	7,373
Succeeding year	-	200,000	216,477	416,477
Income surtax	-	-	28,884	28,884
Due from other governments	-	25	31	56
Total assets	\$ 55,549	\$ 317,309	\$ 514,833	\$ 887,691
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 5,094	\$ 61,717	\$ 66,811
Deferred revenue				
Succeeding year property tax	-	200,000	216,477	416,477
Income surtax	-	-	28,884	28,884
Total liabilities	-	205,094	307,078	512,172
 Fund balances				
Restricted for				
Student activities	55,549	-	-	55,549
Management levy purposes	-	112,215	-	112,215
Physical plant and equipment	-	-	207,755	207,755
Total fund balances	55,549	112,215	207,755	375,519
Total liabilities and fund balances	\$ 55,549	\$ 317,309	\$ 514,833	\$ 887,691

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

Schedule 2

	Special Revenue		Capital Projects		
	Student Activity	Management Levy	Physical Plant and Equipment Levy	Debt Service	Total
Revenues					
Local sources					
Local taxes	\$ -	\$ 102,068	\$ 243,154	\$ -	\$ 345,222
Other	132,530	8,521	595	-	141,646
State sources	-	47	98	-	145
Total revenues	132,530	110,636	243,847	-	487,013
Expenditures					
Current					
Instruction					
Regular	-	70,563	103,562	-	174,125
Special	-	7,286	-	-	7,286
Other	122,042	1,507	-	-	123,549
Total instruction	122,042	79,356	103,562	-	304,960
Support services					
Student	-	638	-	-	638
Instructional staff	-	6,335	-	-	6,335
Administration	-	10,001	85,265	-	95,266
Operation and maintenance of plant	-	50,876	35,069	-	85,945
Transportation	-	18,045	120,789	-	138,834
Total support services	-	85,895	241,123	-	327,018
Non-instructional programs	-	9,641	-	-	9,641
Other expenditures					
Facilities acquisition	-	-	351,799	-	351,799
Long-term debt					
Interest and fiscal charges	-	-	-	152,021	152,021
Total other expenditures	-	-	351,799	152,021	503,820
Total expenditures	122,042	174,892	696,484	152,021	1,145,439
Excess (deficiency) of revenues over (under) expenditures	10,488	(64,256)	(452,637)	(152,021)	(658,426)
Other financing sources (uses)					
Interfund operating transfers in	-	-	301,638	152,020	453,658
Interfund operating transfers (out)	-	-	-	(301,638)	(301,638)
Total other financing sources (uses)	-	-	301,638	(149,618)	152,020
Net change in fund balances	10,488	(64,256)	(150,999)	(301,639)	(506,406)
Fund balances, beginning of year	45,061	176,471	358,754	301,639	881,925
Fund balances, end of year	\$ 55,549	\$ 112,215	\$ 207,755	\$ -	\$ 375,519

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Combining Statement of Net Assets
 Nonmajor Enterprise Funds
 June 30, 2012

Schedule 3

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 136,085	\$ 78,980	\$ 215,065
Accounts receivable	-	200	200
Inventories	9,067	-	9,067
Capital assets, net of accumulated depreciation	<u>241,148</u>	<u>2,770</u>	<u>243,918</u>
Total assets	<u>386,300</u>	<u>81,950</u>	<u>468,250</u>
Liabilities			
Accounts payable	98	72	170
Salaries and benefits payable	30,861	2,804	33,665
Deferred revenue	<u>3,761</u>	-	<u>3,761</u>
Total liabilities	<u>34,720</u>	<u>2,876</u>	<u>37,596</u>
Net Assets			
Invested in capital assets	241,148	2,770	243,918
Unrestricted	<u>110,432</u>	<u>76,304</u>	<u>186,736</u>
Total net assets	<u>\$ 351,580</u>	<u>\$ 79,074</u>	<u>\$ 430,654</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

Schedule 4

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$210,508	\$ 57,154	\$267,662
Operating expenses			
Instruction			
Regular			
Salaries	-	22,213	22,213
Benefits	-	4,463	4,463
Purchased services	-	999	999
Supplies	-	1,957	1,957
Depreciation	-	692	692
	-	30,324	30,324
Support services			
Administration			
Salaries	23,976		23,976
Benefits	3,629	-	3,629
Purchased services	1,999	-	1,999
	29,604	-	29,604
Non-instructional programs			
Food service operations			
Salaries	160,950	-	160,950
Benefits	31,872	-	31,872
Purchased services	5,644	-	5,644
Supplies	185,294	-	185,294
Depreciation	24,993	-	24,993
	408,753	-	408,753
Total operating expenses	438,357	30,324	468,681
Operating income (loss)	(227,849)	26,830	(201,019)
Non-operating revenue			
Interest income	275	132	407
State sources	3,782	-	3,782
Federal sources	200,462	-	200,462
Total non-operating revenue	204,519	132	204,651
Net income (loss)	(23,330)	26,962	3,632
Net assets, beginning of year	374,910	52,112	427,022
Net assets, end of year	\$ 351,580	\$ 79,074	\$430,654

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

Schedule 5

	<u>School Nutrition</u>	<u>Daycare & Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 207,075	\$ 56,954	\$ 264,029
Cash payments to employees for services	(213,337)	(23,872)	(237,209)
Cash payments to suppliers for goods and services	<u>(170,472)</u>	<u>(2,896)</u>	<u>(173,368)</u>
Net cash provided by (used in) operating activities	<u>(176,734)</u>	<u>30,186</u>	<u>(146,548)</u>
Cash flows from non-capital financing activities			
State grants received	3,782	-	3,782
Federal grants received	<u>173,173</u>	<u>-</u>	<u>173,173</u>
Net cash provided by non-capital financing activities	<u>176,955</u>	<u>-</u>	<u>176,955</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	<u>(3,454)</u>	<u>-</u>	<u>(3,454)</u>
Cash flows from investing activities			
Interest on investments	<u>275</u>	<u>132</u>	<u>407</u>
Net increase (decrease) in cash and cash equivalents	(2,958)	30,318	27,360
Cash and cash equivalents, beginning of year	<u>139,043</u>	<u>48,662</u>	<u>187,705</u>
Cash and cash equivalents, end of year	<u>\$ 136,085</u>	<u>\$ 78,980</u>	<u>\$ 215,065</u>
 Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (227,849)	\$ 26,830	\$ (201,019)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	24,993	692	25,685
Commodities used	27,289	-	27,289
(Increase) in accounts receivable	-	(200)	(200)
Decrease in inventory	2,175	-	2,175
Increase (decrease) in accounts payable	(6,999)	60	(6,939)
(Decrease) in deferred revenue	(3,433)	-	(3,433)
Increase in accrued salaries and benefits	<u>7,090</u>	<u>2,804</u>	<u>9,894</u>
Net cash provided by (used in) operating activities	<u>\$ (176,734)</u>	<u>\$ 30,186</u>	<u>\$ (146,548)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2012 the District received \$27,289 of federal commodities.

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2012

Schedule 6

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Intrafund Transfers	Balance, End of Year
Athletics	\$ 3,721	\$ 57,712	\$ 55,873	\$ -	\$ 5,560
Cheerleading fundraising	3,159	775	1,443	33	2,524
Cheerleading resale	-	2,197	2,164	(33)	-
Jr high	(14)	2,629	1,818	-	797
Elementary activity	3,973	4,280	3,987	-	4,266
Concessions	5,583	5,776	4,584	(723)	6,052
FFA	2,973	5,717	4,316	-	4,374
Band	11,463	22,264	14,333	-	19,394
Speech	137	239	148	-	228
Drama	962	-	-	-	962
Student council	1,595	2,401	2,190	-	1,806
Yearbook	3,169	3,426	3,692	-	2,903
Quiz bowl	268	330	330	-	268
Vocal music	5,608	15,960	17,258	-	4,310
TAG	419	-	40	-	379
Senior class	(187)	3,000	3,053	252	12
NHS	729	4,606	5,828	550	57
Interest	-	79	-	(79)	-
FFA Vending	1,503	1,139	985	-	1,657
Totals	<u>\$ 45,061</u>	<u>\$ 132,530</u>	<u>\$ 122,042</u>	<u>\$ -</u>	<u>\$ 55,549</u>

See accompanying Independent Auditor's Report.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Schedule of Revenues by Source and Expenditures by Function
 All Governmental Funds
 For the Last Nine Years

Schedule 7

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues									
Local sources									
Local tax	\$ 4,216,818	\$ 4,075,409	\$ 3,943,319	\$ 4,132,933	\$4,000,876	\$3,931,457	\$3,909,874	\$3,766,108	\$ 3,099,130
Tuition	793,894	772,734	785,368	860,156	757,169	553,573	553,280	508,531	621,015
Other	242,588	472,850	251,793	426,907	417,193	336,277	283,281	314,894	271,674
State sources	4,154,161	4,093,480	3,409,681	4,057,811	4,510,165	3,964,926	3,659,560	3,661,562	3,247,182
Federal sources	403,626	379,225	682,620	289,315	161,365	193,488	182,377	165,659	204,663
Total revenues	\$ 9,811,087	\$ 9,793,698	\$ 9,072,781	\$ 9,767,122	\$9,846,768	\$8,979,721	\$8,588,372	\$8,416,754	\$ 7,443,664
Expenditures									
Current									
Instruction									
Regular	\$ 3,619,438	\$ 3,596,252	\$ 3,778,375	\$ 3,868,239	\$3,919,409	\$3,498,070	\$3,231,244	\$3,082,267	\$ 3,129,887
Special	980,475	1,000,414	881,135	939,238	871,910	868,993	722,969	804,476	843,113
Other	1,156,680	1,159,407	1,091,537	1,016,267	677,268	750,354	771,639	645,212	496,931
Support services									
Student	193,748	217,232	247,448	208,830	212,602	202,923	196,937	232,680	220,136
Instructional staff	354,429	355,953	341,147	313,337	288,542	409,712	423,431	373,511	236,691
Administration	833,084	788,504	798,346	760,514	801,954	651,981	705,263	601,085	606,526
Operation and maintenance of plant	588,528	591,088	654,292	658,326	707,958	653,872	598,758	533,134	549,730
Transportation	491,549	377,921	459,268	483,092	503,815	624,877	447,702	428,106	415,983
Central support	-	-	2,264	467	-	-	-	-	-
Non-instructional programs	9,641	8,112	7,403	8,403	-	-	162	4,049	2,545
Other expenditures									
Facilities acquisition	351,799	1,213,204	4,662,706	283,477	159,735	290,843	300,390	62,814	122,785
Long-term debt									
Principal	-	410,000	461,337	830,000	500,000	470,000	445,000	433,338	3,033,740
Interest and other charges	152,021	191,367	40,650	79,970	103,833	127,232	148,857	201,910	271,131
AEA flowthrough	301,360	333,886	330,730	311,337	308,167	278,396	259,272	248,857	241,253
Total expenditures	\$ 9,032,752	\$ 10,243,340	\$ 13,756,638	\$ 9,761,497	\$9,055,193	\$8,827,253	\$8,251,624	\$7,651,439	\$10,170,451

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Schedule 8

Grantor/Program	CFDA	Grant	Expenditures	
Indirect	<u>Number</u>	<u>Number</u>	<u>Expenditures</u>	
U.S. Department of Agriculture				
Iowa Department of Education				
Child Nutrition Cluster Programs				
School Breakfast Program	10.553	FY12	\$ 25,472	
National School Lunch Program	10.555	FY12	174,990	*
Total Department of Agriculture			<u>200,462</u>	
 U.S. Department of Education				
Iowa Department of Education				
Title I, Part A Cluster				
Title I Grants to Local Educational Agencies	84.010	FY12	99,603	
Safe and Drug-free Schools and Communities-State Grants	84.184	FY12	2,380	
Title IIA - Improving Teacher Quality State Grants	84.367	FY12	26,287	
Grants for State Assessments and Related Activities	84.369	FY12	5,460	
ARRA - State Fiscal Stabilization Fund (SFSF) -				
Education State Grants, Recovery Act	84.394	FY12	6,359	
Government Services, Recovery Act	84.397	FY12	5,376	
Education Jobs Fund	84.410	FY12	<u>163,778</u>	
Total Iowa Department of Education			<u>309,243</u>	
Grant Wood Area Education Agency				
Special Education-Grants to States	84.027	FY12	41,617	**
Carl D. Perkins Career and Technical Education Act				
Comprehensive Centers (Title II)	84.243	FY12	<u>1,000</u>	
Total Area Education Agency			<u>42,617</u>	
Total Department of Education			<u>351,860</u>	
Total federal awards			<u>\$ 552,322</u>	

* Include \$27,289 of non-cash awards

** Total for Special Education Cluster (IDEA) is \$41,617

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

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761
563-264-1385

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
Louisa-Muscatine Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Louisa-Muscatine 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 my report thereon dated February 4, 2013. I conducted my 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 Louisa-Muscatine Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Louisa-Muscatine Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a

reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-12 and II-B-12 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisa-Muscatine Community School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I 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 my audit of the financial statements of the District. Since my 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.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Louisa-Muscatine Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 4, 2013

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive Suite 3
Muscatine, Iowa 52761
563-264-1385

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

To the Board of Education
Louisa-Muscatine Community School District

Compliance

I have audited the compliance of Louisa-Muscatine 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 Louisa-Muscatine Community School District's major federal programs for the year ended June 30, 2012. Louisa-Muscatine 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 Louisa-Muscatine Community School District's management. My responsibility is to express an opinion on Louisa-Muscatine Community School District's compliance based on my audit.

I conducted my 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 I 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 Louisa-Muscatine Community School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Louisa-Muscatine Community School District's compliance with those requirements.

In my opinion, Louisa-Muscatine 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 Louisa-Muscatine 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 my audit, I considered Louisa-Muscatine 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Louisa-Muscatine Community School District's internal control over compliance.

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

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

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

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 4, 2013

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Part I. Summary of the Independent Auditor's Results

1. Unqualified opinions were issued on the financial statements.
2. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.
4. A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
 - CFDA Number 84.010 Title I Grants to Local Educational Agencies
 - CFDA Number 84.410 Education Jobs Fund

Child Nutrition Cluster:

 - CFDA Number 10.553 School Breakfast Program
 - CFDA Number 10.555 National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. Louisa-Muscatine Community School District did not qualify as a low-risk auditee.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

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

Response and Corrective Action Planned - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

III-B-12 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCY

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

CFDA Number 84.410 Education Jobs Fund
Federal Award Year: 2012
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

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

Response and Corrective Action Planned - We have reviewed procedures and plan to make the necessary changes, as we deem necessary, to improve internal control.

Conclusion - Response accepted.

III-B-12 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

Part IV. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2012 did not exceed the amounts budgeted.
2. Questionable Expenditures - No expenditures I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. 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.
4. Business Transactions - Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Angie Kemp, board member part owner of Kemp & Son, Inc.	snow removal and repairs	\$5,257

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

The transactions with Board Member Kemp's business do not appear to represent a conflict of interest since they were competitively bid, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

5. 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.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - It was noted that the supplementary weighting certified to the Iowa Department of Education for the October 2012 report date was overstated by 2.51.

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

Response - We will contact the necessary agencies to resolve this matter.

Conclusion - Response accepted.

9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2012

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

Beginning balance		\$ 1,377,727	
Revenues			
Statewide sales and services tax revenue	\$ 596,534		
Other local revenues	<u>28,488</u>	625,022	
Expenditures/transfers out			
School infrastructure			
School infrastructure construction	\$ 2,500		
Debt service for school infrastructure			
Revenue debt	<u>152,020</u>	<u>154,520</u>	
Ending balance			<u>\$ 1,848,229</u>

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

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2012

This audit was performed by

Kay Chapman, CPA
Terri Slater, staff accountant

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
Summary Schedule of Prior Federal Audit Findings
For the Year Ended June 30, 2012

<u>Comment Number</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation</u>
III-A-11	Segregation of Duties	Not corrected.	Plan to segregate duties for custody, recordkeeping and reconciling among Louisa-Muscatine Community School District staff.

LOUISA-MUSCATINE COMMUNITY SCHOOL DISTRICT
 Corrective Action Plan for Federal Audit Findings
 For the Year Ended June 30, 2012

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
III-A-12	Segregation of Duties	District reviewed procedures and plan to make the necessary changes, as we deem necessary to improve internal control	Karron Stineman Business Manager (319)- 726-3541	6/30/2013
III-B-12	Financial Statement Preparation	The District will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor does the District consider hiring additional staff possessing these skills to be a feasible option.		6/30/2013