

MADRID COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Madrid Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2011 Election)		
Emily Schieltz	President	2011
Linda Ahrens	Vice-President	2013
Katie Baumgarn	Board Member	2013
Marvin Ostrander	Board Member	2011
Terry Ostendorf	Board Member	2011
(After September 2011 Election)		
Emily Schieltz	President	2015
Linda Ahrens	Vice-President	2013
Katie Baumgarn	Board Member	2013
Marvin Ostrander	Board Member	2015
Terry Ostendorf	Board Member	2015
School Officials		
Brian Horn	Superintendent	2012
Sandy Johnson	Business Manager	2012
Drew Bracken	Attorney	2012



NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Madrid Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2013, on our consideration of Madrid Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Madrid Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madrid 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 \$5,609,206 in fiscal 2011 to \$6,138,569 in fiscal 2012, while General Fund expenditures increased from \$5,401,326 in fiscal 2011 to \$5,747,011 in fiscal 2012. This resulted in an increase of the District's General Fund balance from \$460,240 in fiscal 2011 to a balance of \$851,798 in fiscal 2012, an 85.08% increase over the prior year.
- The increase in General Fund revenues was attributable to an increase in all sources of revenue. The increase in expenditures was due in part to increases in regular instruction expenditures.

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 Madrid 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 Madrid Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Madrid Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds.

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

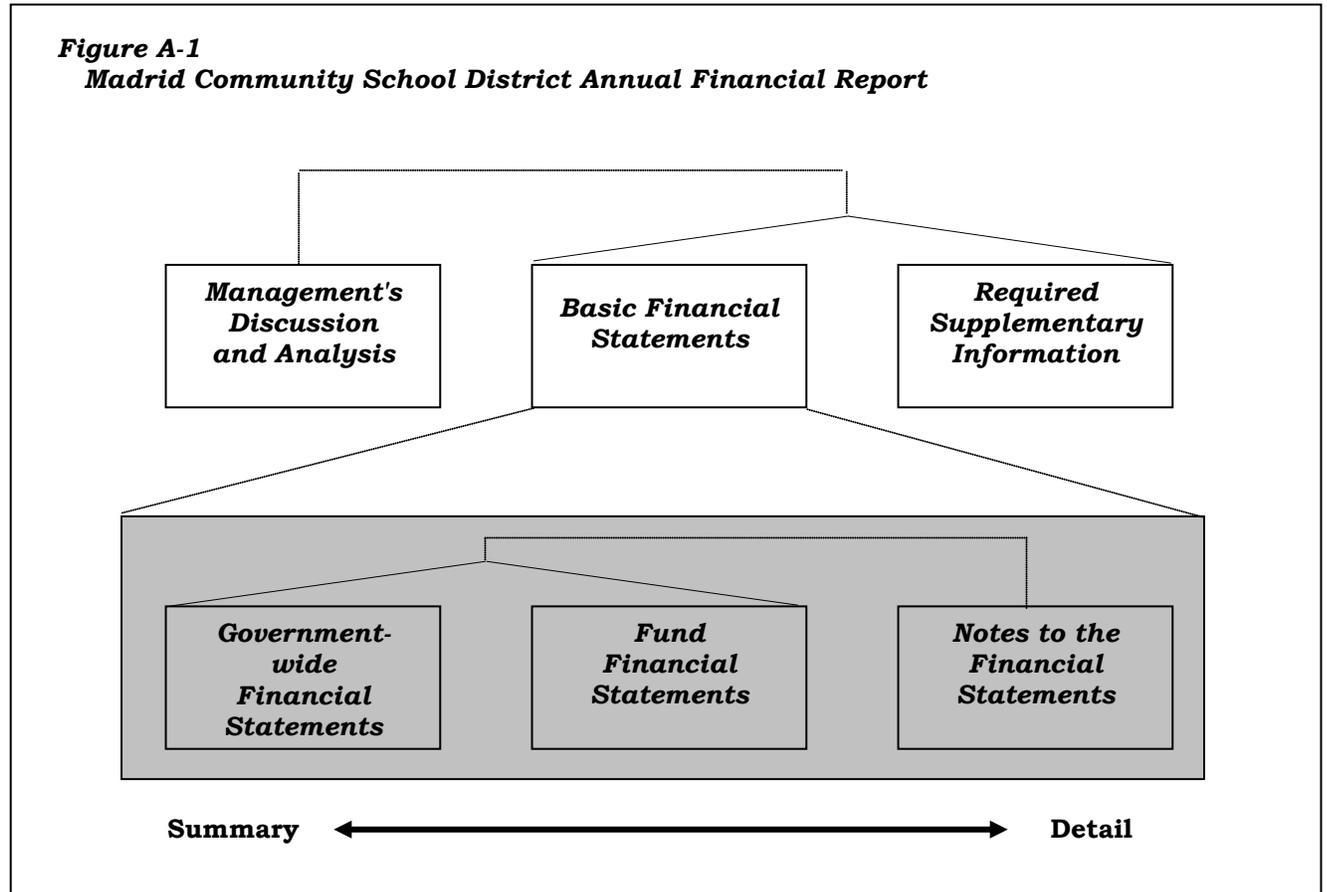


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 3,865,619	3,458,776	85,201	87,257	3,950,820	3,546,033	11.42%
Capital assets	4,333,558	4,339,494	6,199	7,192	4,339,757	4,346,686	-0.16%
Total assets	8,199,177	7,798,270	91,400	94,449	8,290,577	7,892,719	5.04%
Long-term obligations	1,244,146	1,790,607	15,864	10,129	1,260,010	1,800,736	-30.03%
Other liabilities	1,856,460	1,979,947	4,353	4,206	1,860,813	1,984,153	-6.22%
Total liabilities	3,100,606	3,770,554	20,217	14,335	3,120,823	3,784,889	-17.55%
Net assets:							
Invested in capital assets, net of related debt	3,330,366	3,151,475	6,199	7,192	3,336,565	3,158,667	5.63%
Restricted	1,073,130	834,300	-	-	1,073,130	834,300	28.63%
Unrestricted	695,075	41,941	64,984	72,922	760,059	114,863	561.71%
Total net assets	\$ 5,098,571	4,027,716	71,183	80,114	5,169,754	4,107,830	25.85%

The District's combined net assets increased by 25.85%, or \$1,061,924 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, intangibles, 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 \$238,830, or 28.63% over the prior year. The majority of the increase in restricted net assets was due to an increase in fund balances of the Management Levy Fund, and Statewide, Sales, Service and Use Tax Fund.

Unrestricted net assets - are 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 \$645,196, or 561.71%. The majority of the increase in unrestricted net assets is due to the increase in fund balance of the General Fund.

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

	Figure A-4 Changes of Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 511,998	501,807	191,246	185,618	703,244	687,425	2.30%
Operating grants, contributions and restricted interest	443,340	855,723	124,704	124,454	568,044	980,177	-42.05%
General revenues:							
Local tax	1,732,479	1,662,109	-	-	1,732,479	1,662,109	4.23%
Statewide sales, services and use tax	493,242	444,960	-	-	493,242	444,960	10.85%
Income surtax	174,120	186,891	-	-	174,120	186,891	-6.83%
Unrestricted state grants	3,716,989	2,928,593	-	-	3,716,989	2,928,593	26.92%
Nonspecific program federal funding	124,287	60,982	-	-	124,287	60,982	103.81%
Unrestricted investment earnings	893	1,425	12	36	905	1,461	-38.06%
Other	13,755	10,664	5,931	6,001	19,686	16,665	18.13%
Transfers	(86,813)	(79,530)	86,813	79,530	-	-	0.00%
Total revenues	<u>7,124,290</u>	<u>6,573,624</u>	<u>408,706</u>	<u>395,639</u>	<u>7,532,996</u>	<u>6,969,263</u>	<u>8.09%</u>
Program expenses:							
Governmental activities:							
Instructional	3,806,006	4,013,738	-	-	3,806,006	4,013,738	-5.18%
Support services	1,839,336	1,712,753	-	-	1,839,336	1,712,753	7.39%
Non-instructional programs	-	-	417,637	387,397	417,637	387,397	7.81%
Other expenses	408,093	427,202	-	-	408,093	427,202	-4.47%
Total expenses	<u>6,053,435</u>	<u>6,153,693</u>	<u>417,637</u>	<u>387,397</u>	<u>6,471,072</u>	<u>6,541,090</u>	<u>-1.07%</u>
Changes in net assets	1,070,855	419,931	(8,931)	8,242	1,061,924	428,173	148.01%
Net assets beginning of year	<u>4,027,716</u>	<u>3,607,785</u>	<u>80,114</u>	<u>71,872</u>	<u>4,107,830</u>	<u>3,679,657</u>	<u>11.64%</u>
Ending net assets	<u>\$ 5,098,571</u>	<u>4,027,716</u>	<u>71,183</u>	<u>80,114</u>	<u>5,169,754</u>	<u>4,107,830</u>	<u>25.85%</u>

In fiscal 2012, (local tax, property tax, statewide, income tax), and unrestricted state grants account for 85.86% of the revenue from governmental activities while charges for service and operating grants, contributions and restricted interest account for 77.31% of the revenue from business type activities.

The District's total revenues were approximately \$7.53 million, of which approximately \$7.12 million was for governmental activities and approximately \$0.41 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8.09% increase in revenues and a 1.07% decrease in expenses. The increase in revenues is due in part to increased unrestricted state grants and nonspecific program federal funding. The decrease in expenses related in part to decreases in instructional expenditures.

Governmental Activities

Revenues for governmental activities were \$7,124,290 and expenses were \$6,053,435 for the year ended June 30, 2012.

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

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 3,806,006	4,013,738	-5.18%	3,084,388	2,900,867	6.33%
Support services	1,839,336	1,712,753	7.39%	1,837,267	1,710,598	7.40%
Other expenses	408,093	427,202	-4.47%	176,442	184,698	-4.47%
Totals	<u>\$ 6,053,435</u>	<u>6,153,693</u>	<u>-1.63%</u>	<u>5,098,097</u>	<u>4,796,163</u>	<u>6.30%</u>

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$511,998.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$443,340.
- The net cost of governmental activities was financed with \$1,732,479 in local tax, \$493,242 in statewide sales, services and use tax, \$174,120 in income surtax, \$3,716,959 in unrestricted state grants, \$124,287 in nonspecific program federal grants, \$893 in interest income, and \$13,755 in other general revenue.

Business Type Activities

Revenues of the District's business type activities were \$408,706 and expenses were \$417,637. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,840,891, above last year's ending fund balances of a \$1,304,113. The primary reason for the increase in combined fund balances in fiscal 2012 is due to the fund balance increases of the General Fund.

Governmental Fund Highlights

- The District's increasing General Fund financial position is the product of many factors. The District's General Fund increased \$391,558. Increases in revenues during the year as compared to fiscal 2011 were largely responsible for the increase in revenues.

-
- The General Fund balance increased from \$460,240 at June 30, 2011 to \$851,798 at June 30, 2012.
 - The District's Management Fund balance increased from \$142,821 in fiscal 2011 to \$156,163 in fiscal 2012. The increase was due to the District taking in more revenues than expenditures for the year.
 - The Capital Projects Fund balance increased from \$633,280 in fiscal 2011 to \$756,296 in fiscal 2012. The Statewide Sales, Services and Use Tax fund increased from \$414,319 at June 30, 2011 to \$572,700 at June 30, 2012. The Physical Plant and Equipment Levy fund balance decreased from \$218,961 at June 30, 2011 to \$183,596 at June 30, 2012.

Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$80,114 at June 30, 2012 to \$71,183 at June 30, 2012, representing a decrease of 11.15%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$851,388 less than budgeted revenues, a variance of 10.14%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$4,339,757 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 0.16% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$254,708.

The original cost of the District's capital assets was \$9,090,335. Governmental funds account for \$8,977,710 with the remainder of \$112,625 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery totaled \$306,531 reported at June 30, 2012, compared to \$175,442 at June 30, 2011. The increase is attributable to the purchase of school buses and laptop computers during fiscal year 2012.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 112,126	112,126	-	-	112,126	112,126	0.00%
Buildings	3,683,211	3,805,986	-	-	3,683,211	3,805,986	-3.23%
Land improvements	237,889	253,132	-	-	237,889	253,132	-6.02%
Machinery and equipment	300,332	168,250	6,199	7,192	306,531	175,442	74.72%
Total	\$ 4,333,558	4,339,494	6,199	7,192	4,339,757	4,346,686	-0.16%

Long-Term Debt

At June 30, 2012, the District had \$1,260,010 in long-term debt outstanding. This represents a decrease of 30.03% from the prior year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds payable of \$935,000 at June 30, 2012.

The District had outstanding leases payable of \$68,192 at June 30, 2012.

The District had outstanding compensated absences at June 30, 2012 of \$7,387.

The District had a net OPEB liability of \$249,431 at June 30, 2012, \$233,567 attributable to governmental activities and \$15,864 to business type activities.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 935,000	1,055,000	-	-	\$ 935,000	1,055,000	-11.37%
Leases payable	68,192	133,019	-	-	68,192	133,019	-48.74%
Compensated absences	7,387	5,579	-	-	7,387	5,579	32.41%
Early Retirement	-	447,872	-	-	-	447,872	-100.00%
Net OPEB liability	233,567	149,137	15,864	10,129	249,431	159,266	56.61%
Totals	\$ 1,244,146	1,790,607	15,864	10,129	\$ 1,260,010	1,800,736	-30.03%

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 District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District is collecting statewide sales tax in Boone, Dallas & Polk counties within the District's boundaries. Some sales tax dollars are used to reduce the tax asking in the Debt Service Fund.
- 27% of the student population received either free or reduced meals during the 2011-2012 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra R. Johnson, Business Manager, Madrid Community School District, 201 North Main St., Madrid, Iowa, 50156.

BASIC FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,616,217	67,001	1,683,218
Receivables:			
Property tax:			
Delinquent	26,017	-	26,017
Succeeding year	1,793,966	-	1,793,966
Income surtax	177,078	-	177,078
Accounts	2,890	-	2,890
Due from other governments	249,451	-	249,451
Inventories	-	18,200	18,200
Capital assets, net of accumulated depreciation	4,333,558	6,199	4,339,757
Total assets	8,199,177	91,400	8,290,577
Liabilities			
Accounts payable	53,684	-	53,684
Accrued interest payable	8,810	-	8,810
Deferred revenue:			
Succeeding year property tax	1,793,966	-	1,793,966
Unearned revenue	-	4,353	4,353
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	120,000	-	120,000
Leases payable	68,192	-	68,192
Compensated absences	7,387	-	7,387
Portion due after one year:			
General obligation bonds payable	815,000	-	815,000
Net OPEB liability	233,567	15,864	249,431
Total liabilities	3,100,606	20,217	3,120,823
Net Assets			
Invested in capital assets, net of related debt	3,330,366	6,199	3,336,565
Restricted for:			
Categorical funding	84,037	-	84,037
Debt service	28,829	-	28,829
Management levy purposes	156,163	-	156,163
Student activities	47,805	-	47,805
School infrastructure	572,700	-	572,700
Physical plant and equipment	183,596	-	183,596
Unrestricted	695,075	64,984	760,059
Total net assets	\$ 5,098,571	71,183	5,169,754

SEE NOTES TO FINANCIAL STATEMENTS

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants,	Governmental Activities	Business Type Activities	Total
		for Services	Contributions and Restricted Interest			
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 2,628,032	328,463	71,758	(2,227,811)	-	(2,227,811)
Special	551,646	-	32,589	(519,057)	-	(519,057)
Other	626,328	183,535	105,273	(337,520)	-	(337,520)
	<u>3,806,006</u>	<u>511,998</u>	<u>209,620</u>	<u>(3,084,388)</u>	<u>-</u>	<u>(3,084,388)</u>
Support services:						
Student	191,156	-	-	(191,156)	-	(191,156)
Instructional staff	203,320	-	-	(203,320)	-	(203,320)
Administration	577,833	-	-	(577,833)	-	(577,833)
Operation and maintenance of plant	675,018	-	-	(675,018)	-	(675,018)
Transportation	192,009	-	2,069	(189,940)	-	(189,940)
	<u>1,839,336</u>	<u>-</u>	<u>2,069</u>	<u>(1,837,267)</u>	<u>-</u>	<u>(1,837,267)</u>
Other expenditures:						
Long-term debt interest	38,424	-	-	(38,424)	-	(38,424)
AEA flowthrough	231,651	-	231,651	-	-	-
Depreciation(unallocated)*	138,018	-	-	(138,018)	-	(138,018)
	<u>408,093</u>	<u>-</u>	<u>231,651</u>	<u>(176,442)</u>	<u>-</u>	<u>(176,442)</u>
Total governmental activities	6,053,435	511,998	443,340	(5,098,097)	-	(5,098,097)
Business Type activities:						
Non-instructional programs:						
Nutrition services	417,637	191,246	124,704	-	(101,687)	(101,687)
Total business type activities	<u>417,637</u>	<u>191,246</u>	<u>124,704</u>	<u>-</u>	<u>(101,687)</u>	<u>(101,687)</u>
Total	\$ <u>6,471,072</u>	<u>703,244</u>	<u>568,044</u>	<u>(5,098,097)</u>	<u>(101,687)</u>	<u>(5,199,784)</u>
General Revenues and Transfers:						
General revenue:						
Local tax for:						
General purposes				\$ 1,538,230	-	1,538,230
Debt service				56,093	-	56,093
Capital outlay				138,156	-	138,156
Statewide sales, services and use tax				493,242	-	493,242
Income surtax				174,120	-	174,120
Unrestricted state grants				3,716,989	-	3,716,989
Nonspecific program federal funding				124,287	-	124,287
Unrestricted investment earnings				893	12	905
Other general revenues				13,755	5,931	19,686
Transfers				(86,813)	86,813	-
Total general revenues and transfers				<u>6,168,952</u>	<u>92,756</u>	<u>6,261,708</u>
Changes in net assets				1,070,855	(8,931)	1,061,924
Net assets beginning of year				<u>4,027,716</u>	<u>80,114</u>	<u>4,107,830</u>
Net assets end of year				<u>\$ 5,098,571</u>	<u>71,183</u>	<u>5,169,754</u>

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General	Management Levy	Capital Projects	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 785,348	152,897	602,191	75,781	1,616,217
Receivables:					
Property tax:					
Delinquent	19,847	3,239	2,085	846	26,017
Succeeding year	1,318,475	230,000	142,366	103,125	1,793,966
Income surtax	177,078	-	-	-	177,078
Accounts	2,890	-	-	-	2,890
Due from other governments	97,397	27	152,020	7	249,451
Total assets	\$ 2,401,035	386,163	898,662	179,759	3,865,619
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 53,684	-	-	-	53,684
Deferred revenue:					
Succeeding year property tax	1,318,475	230,000	142,366	103,125	1,793,966
Income surtax	177,078	-	-	-	177,078
Total liabilities	1,549,237	230,000	142,366	103,125	2,024,728
Fund balances:					
Restricted for:					
Categorical funding	84,037	-	-	-	84,037
Debt service	-	-	-	28,829	28,829
Management levy purposes	-	156,163	-	-	156,163
Student activities	-	-	-	47,805	47,805
School infrastructure	-	-	572,700	-	572,700
Physical plant and equipment	-	-	183,596	-	183,596
Unassigned	767,761	-	-	-	767,761
Total fund balances	851,798	156,163	756,296	76,634	1,840,891
Total liabilities and fund balances	\$ 2,401,035	386,163	898,662	179,759	3,865,619

SEE NOTES TO FINANCIAL STATEMENTS

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

Total fund balances of governmental funds(page 20)	\$ 1,840,891
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,333,558
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	177,078
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.	(8,810)
Long-term liabilities, including general obligation bonds, leases payable, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,244,146)</u>
Net assets of governmental activities(page 18)	<u><u>\$ 5,098,571</u></u>

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

	General	Management Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,506,348	215,816	631,398	56,092	2,409,654
Tuition	301,690	-	-	-	301,690
Other	45,915	7,776	2,621	168,644	224,956
State sources	3,983,160	-	-	-	3,983,160
Federal sources	301,456	-	-	-	301,456
Total revenues	<u>6,138,569</u>	<u>223,592</u>	<u>634,019</u>	<u>224,736</u>	<u>7,220,916</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,838,947	156,711	-	-	2,995,658
Special	543,324	-	-	-	543,324
Other	459,911	-	-	160,989	620,900
	<u>3,842,182</u>	<u>156,711</u>	<u>-</u>	<u>160,989</u>	<u>4,159,882</u>
Support services:					
Student	189,281	-	-	-	189,281
Instructional staff	196,101	-	3,739	-	199,840
Administration	583,600	-	-	-	583,600
Operation and maintenance of plant	437,815	32,508	-	-	470,323
Transportation	179,568	21,031	105,867	-	306,466
	<u>1,586,365</u>	<u>53,539</u>	<u>109,606</u>	<u>-</u>	<u>1,749,510</u>
Capital outlays	-	-	229,666	-	229,666
Long-term debt:					
Principal	-	-	-	184,827	184,827
Interest and fiscal charges	-	-	-	41,789	41,789
	<u>-</u>	<u>-</u>	<u>-</u>	<u>226,616</u>	<u>226,616</u>
Other expenditures:					
AEA flowthrough	231,651	-	-	-	231,651
Total expenditures	<u>5,660,198</u>	<u>210,250</u>	<u>339,272</u>	<u>387,605</u>	<u>6,597,325</u>
Excess(Deficiency) of revenues over(under) expenditures	478,371	13,342	294,747	(162,869)	623,591
Other financing sources(uses):					
Transfer in	-	-	-	171,731	171,731
Transfer out	(86,813)	-	(171,731)	-	(258,544)
Total other financing sources(uses)	<u>(86,813)</u>	<u>-</u>	<u>(171,731)</u>	<u>171,731</u>	<u>(86,813)</u>
Net change in fund balances	391,558	13,342	123,016	8,862	536,778
Fund balances beginning of year	460,240	142,821	633,280	67,772	1,304,113
Fund balances end of year	<u>\$ 851,798</u>	<u>156,163</u>	<u>756,296</u>	<u>76,634</u>	<u>1,840,891</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

Net change in fund balances - total governmental funds(page 22)		\$ 536,778
 Amounts reported for governmental activities in the statement of activities are different because:		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$ 247,779	
Depreciation expense	<u>(253,715)</u>	(5,936)
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		 (9,813)
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		 184,827
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		 3,365
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement	\$ 447,872	
Compensated absences	(1,808)	
Other postemployment benefits	<u>(84,430)</u>	<u>361,634</u>
 Changes in net assets of governmental activities(page 19)		 <u>\$ 1,070,855</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 67,001
Inventories	18,200
Capital assets, net of accumulated depreciation	6,199
Total assets	<u>91,400</u>
Liabilities	
Unearned revenue	4,353
Net OPEB liability	15,864
Total liabilities	<u>20,217</u>
Net Assets	
Invested in capital assets	6,199
Unrestricted	64,984
Total net assets	<u>\$ 71,183</u>

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 191,246
Miscellaneous	5,931
Total operating revenues	197,177
Operating expenses:	
Non-instructional programs:	
Salaries	147,469
Benefits	62,734
Supplies	206,441
Depreciation	993
Total operating expenses	417,637
Operating loss	(220,460)
Non-operating revenues:	
State sources	3,194
Federal sources	121,510
Interest on investments	12
Total non-operating revenues	124,716
Change in net assets before other financing sources	(95,744)
Other financing sources:	
Transfer in	86,813
Change in net assets	(8,931)
Net assets beginning of year	80,114
Net assets end of year	\$ 71,183

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 191,393
Cash received from miscellaneous	5,931
Cash payments to employees for services	(204,468)
Cash payments to suppliers for goods or services	(190,637)
Net cash used in operating activities	(197,781)
Cash flows from non-capital financing activities:	
Transfer from General Fund	86,813
State grants received	3,194
Federal grants received	106,970
Net cash provided by non-capital financing activities	196,977
Cash flows from investing and other activities:	
Interest on investments	12
Net increase in cash and cash equivalents	(792)
Cash and cash equivalents at beginning of year	67,793
Cash and cash equivalents at end of year	\$ 67,001
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (220,460)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,540
Depreciation	993
Decrease in inventories	1,264
Increase in other post employment benefits	5,735
Increase in unearned revenue	147
Net cash used in operating activities	\$ (197,781)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2012, the District received \$14,540 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS

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

	Private Purpose Trust
	Scholarship
Assets	
Cash and pooled investments	\$ 7,456
Liabilities:	0
Net assets:	
Restricted for scholarships	\$ 7,456

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 10,500
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>9,500</u>
Change in net assets	1,000
Net assets beginning of year	<u>6,456</u>
Net assets end of year	<u><u>\$ 7,456</u></u>

MADRID COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Madrid Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Madrid, Iowa, and the predominate agricultural territory in Boone, Dallas, and Polk 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, Madrid 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 Madrid Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

Unrestricted net asset consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are 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 that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

The Special Revenue, Management Fund is used primarily to account for various insurance expenditures as well as early retirement benefits for qualified individuals.

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

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

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

Asset Class	Amount
Land	\$ 1,200
Buildings	1,200
Land improvements	1,200
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,200

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current

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

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

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

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

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

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

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

Unassigned - All amounts not included in the preceding classification.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditure exceeded the amounts budgeted in the other expenditures functional area.

(2) Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The District had no investments as of June 30, 2012.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide, Sales, Services and Use Tax	\$ 171,731
Enterprise, School Nutrition	General	86,813
Total		<u>\$ 258,544</u>

The transfer from Capital Projects: Statewide, Sales, Services and Use Tax to Debt Service was needed for principal and interest payments on the District's general obligation bond and lighting lease indebtedness. The transfer from the General Fund to the Enterprise, School Nutrition Fund was needed for cash flow (see comment II-M-12).

(4) Iowa School Cash Anticipation Program (ISCAP)

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

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The series 2011-12A included taxable and tax-exempt warrants. The District participated in the issuance of the taxable warrants.

The interest rate on the taxable Series 2011-12A warrant is variable rates, calculated daily, based on the one-month LIBOR rate plus 100 basis points. A summary of the District's ISCAP activity for the year ended June 30, 2012 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2011-12A	7/6/2011	6/21/2012	\$ -	37,501	37,501	-

During the year ended June 30, 2012, the District paid \$14 of interest on the ISCAP warrants.

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 112,126	-	-	112,126
Total capital assets not being depreciated	112,126	-	-	112,126
Capital assets being depreciated:				
Buildings	7,127,105	-	-	7,127,105
Land improvements	698,936	-	-	698,936
Machinery and equipment	837,638	247,779	45,874	1,039,543
Total capital assets being depreciated	8,663,679	247,779	45,874	8,865,584
Less accumulated depreciation for:				
Buildings	3,321,119	122,775	-	3,443,894
Land improvements	445,804	15,243	-	461,047
Machinery and equipment	669,388	115,697	45,874	739,211
Total accumulated depreciation	4,436,311	253,715	45,874	4,644,152
Total capital assets being depreciated, net	4,227,368	(5,936)	-	4,221,432
Governmental activities capital assets, net	\$ 4,339,494	(5,936)	-	4,333,558
Business type activities:				
Machinery and equipment	\$ 112,625	-	-	112,625
Less accumulated depreciation	105,433	993	-	106,426
Business type activities capital assets, net	\$ 7,192	(993)	-	6,199

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 28,756
Support services:		
Administration		1,053
Operation and maintenance of plant		4,717
Transportation		81,171
		<u>115,697</u>
Unallocated depreciation		<u>138,018</u>
		<u>\$ 253,715</u>
Business type activities:		
Food services		<u>\$ 993</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,055,000	-	120,000	935,000	120,000
Leases payable	133,019	-	64,827	68,192	68,192
Compensated absences	5,579	7,387	5,579	7,387	7,387
Early retirement	447,872	-	447,872	-	-
Net OPEB liability	149,137	84,430	-	233,567	-
				<u>1,244,146</u>	<u>195,579</u>
Total	<u>\$ 1,790,607</u>	<u>91,817</u>	<u>638,278</u>	<u>1,244,146</u>	<u>195,579</u>
Business type activities:					
Net OPEB liability	\$ 10,129	5,735	-	15,864	-

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of April 1, 2009			
	Interest Rate	Principal	Interest	Total
2013	2.60%	\$ 120,000	34,385	154,385
2014	2.80	125,000	31,625	156,625
2015	3.10	130,000	25,005	155,005
2016	3.40	135,000	20,975	155,975
2017	3.70	135,000	16,385	151,385
2018-2019	3.85-4.0	290,000	17,390	307,390
Total		<u>\$ 935,000</u>	<u>145,765</u>	<u>1,080,765</u>

Leases Payable

Details of the District's June 30, 2012 capital lease obligation are as follows:

Year Ending June 30,	Lease dated June 12, 2009			
	Interest Rate	Principal	Interest	Total
2013	5.19%	\$ 68,192	3,539	71,731

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's regular contractual salary from the salary schedule in effect during the employees last year of employment. Early retirement is not a liability of the District as it is calculated as part of the District's net OPEB liability.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$294,105, \$236,442, and 227,747, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. For fiscal year 2012, there are 80 active and 19 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical benefits are provided through fully-insured plans with Wellmark. The District pays the premiums for retirees under age 65. These premiums are the same as what the District pays for active employees, which results in an implicit rate subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 146,435
Interest on net OPEB obligation	3,982
Adjustment to annual required contribution	(11,488)
Annual OPEB cost	<u>138,929</u>
Contributions made	(48,764)
Increases in net OPEB obligation	<u>90,165</u>
Net OPEB obligation beginning of year	<u>159,266</u>
Net OPEB obligation end of year	<u>\$ 249,431</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 \$48,764 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
2010	\$ 128,591	36.32%	\$ 81,888
2011	128,795	39.92%	159,266
2012	138,929	35.10%	249,431

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$672,326, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$672,326. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,767,268 and the ratio of the UAAL to covered payroll was 24.30%. 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 assumption about future

employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2009 actuarial valuation date, the 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 health cost trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$374 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$231,651 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Categorical Funding

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

<u>Project</u>	<u>Amount</u>
LEP weighting	\$ 1,294
Beginning teacher mentoring and induction program	119
Beginning administrator mentoring and induction program	1,500
Four-year old preschool state aid	18,031
Professional development for model core curriculum	23,751
Professional development	33,846
Market factor incentives	1,496
Model core curriculum	<u>4,000</u>
Total	<u>\$ 84,037</u>

(12) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the amount budgeted.



REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,936,300	197,189	3,133,489	3,608,937	3,608,937	(475,448)
State sources	3,983,160	3,194	3,986,354	4,505,260	4,505,260	(518,906)
Federal sources	301,456	121,510	422,966	280,000	280,000	142,966
Total revenues	<u>7,220,916</u>	<u>321,893</u>	<u>7,542,809</u>	<u>8,394,197</u>	<u>8,394,197</u>	<u>(851,388)</u>
Expenditures/Expenses:						
Instruction	4,159,882	-	4,159,882	4,750,000	4,750,000	590,118
Support services	1,749,510	-	1,749,510	2,476,500	2,476,500	726,990
Non-instructional programs	-	417,637	417,637	593,000	593,000	175,363
Other expenditures	687,933	-	687,933	482,026	482,026	(205,907)
Total expenditures/expenses	<u>6,597,325</u>	<u>417,637</u>	<u>7,014,962</u>	<u>8,301,526</u>	<u>8,301,526</u>	<u>1,286,564</u>
Deficiency of revenues under expenditures/expenses	623,591	(95,744)	527,847	92,671	92,671	435,176
Other financing sources(uses), net	(86,813)	86,813	-	-	-	-
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing uses	536,778	(8,931)	527,847	92,671	92,671	435,176
Balance beginning of year	1,304,113	80,114	1,384,227	844,360	844,360	539,867
Balance end of year	<u>\$ 1,840,891</u>	<u>71,183</u>	<u>1,912,074</u>	<u>937,031</u>	<u>937,031</u>	<u>975,043</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FUNDING IN 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	-	\$ 672,326	672,326	0.0%	3,102,329	21.67%
2011	July 1, 2009	-	\$ 672,326	672,326	0.0%	2,983,186	22.54%
2012	July 1, 2009	-	\$ 672,326	672,326	0.0%	2,767,268	24.30%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

SUPPLEMENTARY INFORMATION

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

	Special Revenue:		Total Nonmajor Governmental Funds
	Student Activity	Debt Service	
Assets			
Cash and pooled investments	\$ 47,805	27,976	75,781
Receivables:			
Property tax:			
Delinquent	-	846	846
Succeeding year	-	103,125	103,125
Due from other governments	-	7	7
Total assets	\$ 47,805	131,954	179,759
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	103,125	103,125
Total liabilities	-	103,125	103,125
Fund balances:			
Restricted for:			
Debt service	-	28,829	28,829
Student activities	47,805	-	47,805
Total fund balances	47,805	28,829	76,634
Total liabilities and fund balances	\$ 47,805	131,954	179,759

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Special Revenue:		Total Nonmajor Governmental Funds
	Student Activity	Debt Service	
Revenues:			
Local sources:			
Local tax	\$ -	56,092	56,092
Other	168,639	5	168,644
Total revenues	168,639	56,097	224,736
Expenditures:			
Current:			
Instruction:			
Other	160,989	-	160,989
Long-term debt:			
Principal	-	184,827	184,827
Interest and fiscal charges	-	41,789	41,789
Total expenditures	160,989	226,616	387,605
Excess(Deficiency) of revenues over(under) expenditures	7,650	(170,519)	(162,869)
Other financing sources:			
Transfer in	-	171,731	171,731
Net change in fund balances	7,650	1,212	8,862
Fund balances beginning of year	40,155	27,617	67,772
Fund balances end of year	\$ 47,805	28,829	76,634

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Capital Projects		
	Statewide Sales, Service and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 420,697	181,494	602,191
Receivables:			
Property tax:			
Delinquent	-	2,085	2,085
Succeeding year	-	142,366	142,366
Due from other governments	152,003	17	152,020
Total assets	\$ 572,700	325,962	898,662
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ -	142,366	142,366
Total liabilities	-	142,366	142,366
Fund balances:			
Restricted for:			
School infrastructure	572,700	-	572,700
Physical plant and equipment	-	183,596	183,596
Total fund balances	572,700	183,596	756,296
Total liabilities and fund balances	\$ 572,700	325,962	898,662

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

	Capital Projects		
	Statewide Sales, Service and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 493,242	138,156	631,398
Other	2,516	105	2,621
Total revenues	<u>495,758</u>	<u>138,261</u>	<u>634,019</u>
Expenditures:			
Current:			
Support services:			
Instructional staff	-	3,739	3,739
Student transportation	-	105,867	105,867
	<u>-</u>	<u>109,606</u>	<u>109,606</u>
Capital outlays	165,646	64,020	229,666
Total expenditures	<u>165,646</u>	<u>173,626</u>	<u>339,272</u>
Excess(Deficiency) of revenues over(under) expenditures	330,112	(35,365)	294,747
Other financing uses:			
Transfer out	(171,731)	-	(171,731)
Net change in fund balances	158,381	(35,365)	123,016
Fund balances beginning of year	414,319	218,961	633,280
Fund balances end of year	<u>\$ 572,700</u>	<u>183,596</u>	<u>756,296</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 2,949	920	935	2,934
7-12 Vocal Music	536	-	240	296
7-12 Music Trip	5,949	9,556	10,135	5,370
7-12 Instrumental Music	251	100	-	351
Elementary Music	568	618	678	508
7-12 Activities	1,322	713	1,509	526
Yearbook	-	1,855	1,855	-
HS Student Council	195	2,123	2,118	200
JH Student Council	251	-	48	203
K-6 Student Council	274	-	-	274
K-6 Building	3,988	2,665	3,172	3,481
Athletic Uniforms	-	6,733	6,733	-
Activity Passes	-	1,880	1,880	-
Boys Basketball	481	4,783	4,747	517
Boys Basketball Camp	897	5,044	5,140	801
Football	635	25,505	25,743	397
Baseball	-	6,591	5,870	721
Baseball Camp	-	170	170	-
Boys Track	-	3,708	3,708	-
Cross Country Camp	208	898	1,106	-
Golf	-	2,717	2,717	-
Football Camp	2,932	5,484	7,219	1,197
Girls Basketball	420	5,049	4,798	671
Volleyball	676	7,460	7,926	210
Softball	155	7,698	7,154	699
Softball Camp	253	5,161	5,414	-
Girls Track	-	5,021	5,021	-
FCCLA	1,085	2,055	1,839	1,301
Spanish Club	658	-	-	658
HS Cheerleaders	994	7,958	8,013	939
JH Cheerleaders	358	374	398	334
7-12 Activity Awards	-	216	216	-
Team Tigers	3,390	39,690	28,744	14,336
Class of 2012	2,932	-	2,932	-
Class of 2013	2,625	3,420	2,558	3,487
Class of 2014	2,620	380	59	2,941
Class of 2015	1,955	225	-	2,180
Class of 2016	598	1,028	97	1,529
Class of 2017	-	841	97	744
Total	\$ 40,155	168,639	160,989	47,805

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF FIDUCIARY NET ASSETS -
 PRIVATE PURPOSE TRUST
 JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund						
	Madrid Lions	Cathy Clark	Hinchliff Enterprises	Virgil Wood Scholarship	Madrid Alumni	Madrid Masonic	Total
Assets							
Cash and pooled investments	\$ 2,000	500	1,000	1,756	1,200	1,000	7,456
Liabilities							
	-	-	-	-	-	-	-
Net Assets:							
Retricted for scholarships	\$ 2,000	500	1,000	1,756	1,200	1,000	7,456

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS -
 PRIVATE PURPOSE TRUST
 FOR YEAR ENDED JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund						
	Madrid Lions	Cathy Clark	Hinchliff Enterprises	Virgil Wood Scholarship	Madrid Alumni	Madrid Masonic	Total
Additions:							
Local sources:							
Gifts and contributions	\$ 2,000	500	1,000	6,000	-	1,000	10,500
Deductions:							
Instruction:							
Regular instruction:							
Scholarships awarded	2,000	500	1,000	5,500	-	500	9,500
Change in net assets	-	-	-	500	-	500	1,000
Net assets beginning of year	2,000	500	1,000	1,256	1,200	500	6,456
Net assets end of year	\$ 2,000	500	1,000	1,756	1,200	1,000	7,456

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR LAST NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 2,409,654	2,296,222	2,126,882	2,087,555	1,955,185	1,952,969	1,698,266	1,688,295	1,551,156
Tuition	301,690	290,362	240,222	241,925	202,345	173,929	177,624	155,947	111,578
Other	224,956	223,534	247,727	248,380	265,845	314,214	231,728	226,984	185,179
State sources	3,983,160	3,608,229	3,024,596	3,374,291	3,248,506	2,883,277	2,700,463	2,523,577	2,346,334
Federal sources	301,456	237,069	500,455	192,811	128,854	143,103	182,767	179,664	183,383
Total	\$ 7,220,916	6,655,416	6,139,882	6,144,962	5,800,735	5,467,492	4,990,848	4,774,467	4,377,630
Expenditures:									
Current:									
Instruction:									
Regular	\$ 2,995,658	2,693,765	2,687,857	2,601,546	2,420,174	2,165,517	2,044,434	1,914,044	1,812,725
Special	543,324	625,324	608,764	619,247	529,503	524,670	506,964	587,167	559,072
Other	620,900	593,624	592,104	517,616	537,375	515,255	527,272	498,422	466,306
Support services:									
Student	189,281	132,284	129,294	117,730	111,518	128,272	117,223	109,305	107,408
Instructional staff	199,840	221,920	181,813	134,805	151,619	143,674	202,236	194,616	196,845
Administration	583,600	569,338	553,073	549,483	523,941	548,187	494,642	459,971	440,807
Operation and maintenance of plant	470,323	507,326	463,686	430,363	463,548	453,402	440,722	396,592	387,372
Transportation	306,466	179,109	244,019	147,956	185,104	163,896	176,373	125,109	113,078
Non-instructional programs	-	-	9,373	6,638	6,000	5,432	4,177	68,190	62,506
Capital outlays	229,666	89,516	332,135	478,403	393,693	211,712	182,030	50,376	121,788
Long-term debt:									
Principal	184,827	176,460	110,000	95,000	95,000	90,000	85,000	80,000	80,989
Interest	41,789	47,521	42,412	82,787	67,868	72,408	76,233	79,833	83,108
Other expenditures:									
AEA flow-through	231,651	242,504	230,760	207,737	194,028	177,033	163,191	154,800	155,671
Total	\$ 6,597,325	6,078,691	6,185,290	5,989,311	5,679,371	5,199,458	5,020,497	4,718,425	4,587,675

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Madrid Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be 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. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings Costs item I-A-12 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Madrid Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters

that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2013

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget - District expenditures for the year ended June 30, 2012, exceeded the amount budgeted in the other expenditures functional area.
- Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- Response - Capital project expenditures were entered on the wrong line. Line 29 dollars should have been reported on line 33. FY 13 was double checked and done correctly.
- Conclusion - Response accepted.
- II-B-12 Questionable disbursements – We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-12 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-12 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- II-H-12 Supplemental Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-12 Statewide Sales and Servicing Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services, and use tax revenue.

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

Beginning balance		\$	414,319
Revenues:			
Sales tax revenues	\$	493,242	
Other local revenues		2,516	495,758
			<u>910,077</u>
Expenditures/transfers out:			
School infrastructure construction	\$	44,687	
Land purchased		60,390	
Equipment		29,027	
Other		31,542	
Transfers to Other Funds:			
Debt service fund		171,731	337,377
			<u>337,377</u>
Ending Balance		\$	<u>572,700</u>

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

	<u>Rate of Levy</u>	<u>Property</u>
	<u>Reduction</u>	<u>Tax</u>
	<u>Per \$1,000</u>	<u>Dollars</u>
	<u>of Taxable</u>	<u>Reduced</u>
	<u>Valuation</u>	
Debt Service Levy	\$ 1.66000	\$ 171,731

II-M-12 Transfer to Enterprise Fund - We noted a permanent transfer of \$86,813 from the General Fund to the School Nutrition Fund to cover cash shortages at year end. Districts cannot transfer money from the General Fund to the School Nutrition Fund without permission from the School Budget Review Committee.

Recommendation - The District should contact the School Budget Review Committee and the Iowa Department of Education to resolve the matter.

Response - We will consult with the Department of Education to determine our financial options with regard to transfers and the Nutrition fund.

Conclusion - Response accepted.