

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL
DISTRICT

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

June 30, 2012

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Independent Auditor's Report

To the Board of Education of
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District, Marcus, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Marcus-Meriden-Cleghorn 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 reports dated March 13, 2013, on our consideration of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 39 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marcus-Meriden-Cleghorn Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011, (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

March 13, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Marcus-Meriden-Cleghorn (MMC) 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 \$4,608,913 in fiscal 2011 to \$4,805,270 in fiscal 2012, while General Fund expenditures increased from \$4,326,583 in fiscal 2011 to \$4,461,398 in fiscal 2012. The District's General Fund balance increased from \$370,038 in fiscal 2011 to \$713,910 in fiscal 2012, a 93% increase.
- The District's solvency ratio has continued to recover from the effects of the 10% across the board cut. The ratio has increased to 9.56% from 3.26% in 2011. Along with the increasing solvency ratio the District also saw their General Fund cash position strengthen, going from \$798,590 in reserves to \$1,116,264 in 2012.

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 MMC 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 MMC 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 MMC Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the non-major funds.

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

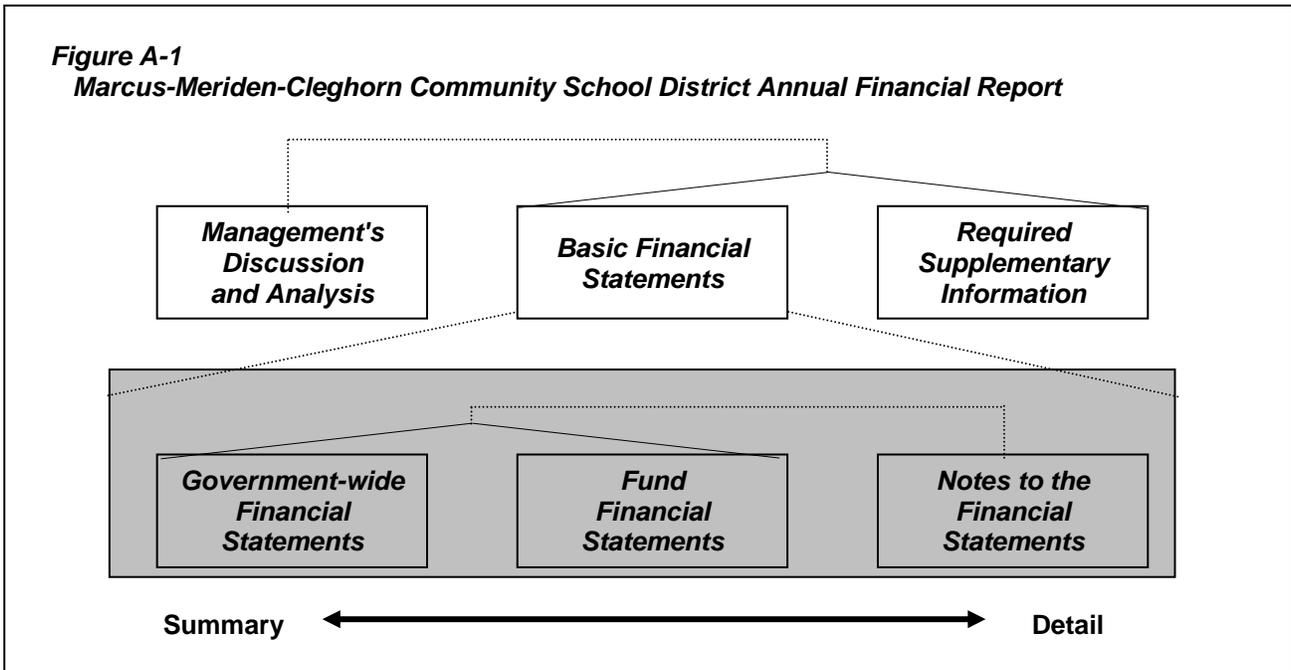


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2011-2012 %
	Governmental Activities		Business-type Activities		Total School District		
	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	
Current and other assets	5,819,657	6,507,281	52,190	66,272	5,871,847	6,573,553	11.95
Capital assets	3,983,294	3,848,825	52,134	48,750	4,035,428	3,897,575	(3.42)
Total assets	9,802,951	10,356,106	104,324	115,022	9,907,275	10,471,128	5.69
Long-term liabilities	2,415,867	2,263,991	514	514	2,416,381	2,264,505	(6.29)
Other liabilities	3,496,024	3,601,158	4,126	3,193	3,500,150	3,604,351	2.98
Total liabilities	5,911,891	5,865,149	4,640	3,707	5,916,531	5,868,856	(.81)
Net Assets:							
Invested in capital assets, net of related debt	1,994,861	1,912,182	52,134	48,750	2,046,995	1,960,932	(4.20)
Restricted	1,512,900	1,932,570	-	-	1,512,900	1,932,570	27.74
Unrestricted	383,299	646,205	47,550	62,565	430,849	708,770	64.51
TOTAL NET ASSETS	3,891,060	4,490,957	99,684	111,315	3,990,744	4,602,272	15.32

The District's combined total net assets increased by nearly 15.32%, or approximately \$600,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$420,000 or 27.74% over the prior year. The increase was made up of basically two things. The first factor was that the Management Levy was increased by more than the projected expenditures resulting in a net increase in cash of approximately \$90,000. The other factor that made up approximately \$300,000 of the total increase was the use of a Debt Service Levy to offset the one year lapse of the Voted PPEL for fiscal 2012. This allowed for the debt payment to be paid out of Debt Service directly allowing for the Local Option Sales and Service Tax to accumulate it's funds.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$278,000, or 64.51%. This increase in unrestricted net assets was a result of the District using the Cash Reserve Levy to increase our cash balance.

Figure A-4 shows the change in net assets for the years ended June 30, 2012 and 2011.

Figure A-4

	Change in Net Assets						Percentage Change 2011-2012 %
	Governmental Activities		Business-type Activities		Total School District		
	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	
Revenues							
Program Revenues:							
Charges for services	252,067	273,358	113,846	107,465	365,913	380,823	4.07
Operating grants & contributions	904,413	740,030	91,859	98,770	996,272	838,800	(15.81)
Capital grants & contributions	-	-	-	-	-	-	
General Revenues:							
Property taxes	2,705,584	2,808,837	-	-	2,705,584	2,808,837	3.82
Income surtax	237,347	208,253	-	-	237,347	208,253	(12.26)
Sales tax	333,917	338,838	-	-	333,917	338,838	1.48
Unrestricted state grants	1,076,009	1,272,678	-	-	1,076,009	1,272,678	18.28
Unrestricted investment earnings	27,014	19,387	273	200	27,287	19,587	(28.22)
Other revenue	22,973	8,793	-	-	22,973	8,793	(61.72)
Total Revenues	5,559,324	5,670,174	205,978	206,435	5,765,302	5,876,609	1.93
Expenses:							
Instruction	2,960,669	3,088,710	-	-	2,960,669	3,088,710	4.32
Support services	1,438,185	1,553,893	-	-	1,438,185	1,553,893	8.05
Non-instructional programs	-	-	190,288	194,804	190,288	194,804	2.37
Other expenditures	515,045	427,674	-	-	515,045	427,674	(16.96)
Total expenses	4,913,899	5,070,277	190,288	194,804	5,104,187	5,265,081	3.15
CHANGE IN NET ASSETS	645,425	599,897	15,690	11,631	661,115	611,528	
Net assets beginning of year	3,245,635	3,891,060	83,994	99,684	3,329,629	3,990,744	19.86
Net assets end of year	3,891,060	4,490,957	99,684	111,315	3,990,744	4,602,272	15.32

In fiscal year 2012 property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

As shown in figure A-4, the District as a whole experienced a 1.93% increase in revenues and a 3.15% increase in expenses. Property tax increased \$103,000 and our unrestricted state grants increased approximately \$200,000 to help offset the increasing expenses. The increases in expenses related to increases in the negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$5,670,174 and expenses were \$5,070,277. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2011	2012	Percent Change 2011-2012	2011	2012	Percent Change 2011-2012
	\$	\$	%	\$	\$	%
Instruction	2,960,669	3,088,710	4.32	2,008,166	2,257,512	12.42
Support Services	1,438,185	1,553,893	8.05	1,435,561	1,550,140	7.98
Other Expenses	515,045	427,674	(16.96)	313,692	249,237	(20.55)
TOTAL	4,913,899	5,070,277	3.18	3,757,419	4,056,889	7.97

For the year ended June 30, 2012

- The cost financed by users of the District's programs was \$273,358. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$740,030.
- The net cost of governmental activities was financed with \$3,355,928 in property and local other taxes and \$1,272,678 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$206,435 and expenses were \$194,804. 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, MMC Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,827,566, which was an increase over last year's ending fund balances of \$2,169,910. This can be attributed to keeping our property tax rate constant and keeping our expenses relatively level as compared to fiscal year 2011.

Governmental Fund Highlights

- The General Fund balance increased from \$370,038 to \$713,910, mainly due to the increase in property taxes and revenues from state sources. This also led to an approximate \$310,000 increase in the unassigned fund balance bringing it to \$459,222 at year end 2012.
- The Capital Projects Fund balance increased due to a decrease of approximately \$130,000 in expenses. Fiscal 2012 ended with a balance of \$1,685,351, consisting primarily of accumulated sales tax revenues.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$99,684 at June 30, 2011 to \$111,315 at June 30, 2012, representing an increase of 11.67%. The reason for the increase in net assets was attributable to an increase in State and Federal funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, MMC Community School District's receipts were \$509,182 more than budgeted receipts, a variance of 9.36%. The most significant variance resulted from the District receiving more from local and federal sources than originally anticipated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$3,897,575, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3.42% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$211,178.

The reason for the decrease in capital assets this year was due to the depreciation of \$203,986 being larger than the increases of \$69,517 to the assets.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change
	2011	2012	2011	2012	2011	2012	2011-2012
	\$	\$	\$	\$	\$	\$	%
Land	11,900	11,900	-	-	11,900	11,900	0.00
Buildings	3,108,045	3,056,260	-	-	3,108,045	3,056,260	(1.67)
Improvements	638,411	600,169	-	-	638,411	600,169	(5.99)
Equipment & furniture	224,938	180,496	52,134	48,750	277,072	229,246	(17.26)
TOTAL	3,983,294	3,848,825	52,134	48,750	4,035,428	3,897,575	(3.42)

Long-Term Debt

At June 30, 2012 the District had \$2,383,833 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 5.94% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The constitution of the State of Iowa limits the amount of debt school districts can issue to 5% of the assessed value of all taxable property within the district. The District's outstanding bonded and note indebtedness as of June 30, 2012 was \$2,838,319 which is significantly below its constitutional debt limit of \$21,793,607.

The District's general obligation bonds are not rated.

The early retirement benefits are scheduled to be fully paid out in fiscal year 2014. There have not been any discussions to date of adding any new retirement benefits at this time, which will help reduce our total indebtedness.

**Figure A-7
Outstanding Long-Term Obligations**

	Total School District		Percentage
	2011	2012	Change
	\$	\$	%
General obligation bonds	2,435,000	2,315,000	(4.93)
Early retirement	76,827	37,150	(51.64)
Net OPEB liability	22,621	31,683	40.06
	<u>2,534,448</u>	<u>2,383,833</u>	<u>(5.94)</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The biggest concern that MMC faces is the declining enrollment, the reason for concern is that state funding is calculated on a per student basis. With that in mind, the largest remaining class is set to graduate in the spring of 2013. This will directly affect the fiscal year 2015 budget with an estimated decrease of 20 students.
- The District has made a history of replacing a bus every other year and fiscal year 2013 is the year the District will purchase a new bus with the estimated cost of \$78,000. To pay for the bus, the District will use funds from the Physical Plant and Equipment Levy Fund.
- The District's Board and Administrators have begun looking at our facilities to determine what our needs are for the future with the declining enrollments. This has included a wide range of topics with the more substantial ones being; a possible addition on the Marcus facilities, closing the facility in Cleghorn, and talking with neighboring districts to determine any sharing possibilities. The District has taken a very proactive approach to the future and we continue to look at any and all ways to keep the District financially solvent.

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 Joe Mohning, District Treasurer and Business Manager, Marcus-Meriden-Cleghorn Community School District, 400 E Fenton, Marcus, Iowa, 51035.

BASIC FINANCIAL STATEMENTS

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	3,163,431	61,843	3,225,274
Receivables:			
Property tax:			
Delinquent	32,168	-	32,168
Succeeding year	2,926,828	-	2,926,828
Accounts	4,091	3	4,094
Due from other governments	310,386	-	310,386
Internal balances	(19)	19	-
Inventories	-	4,407	4,407
Prepaid expenses	18,649	-	18,649
Unamortized bond issue costs	51,747	-	51,747
Capital assets, net of accumulated depreciation	3,848,825	48,750	3,897,575
Total assets	10,356,106	115,022	10,471,128
Liabilities			
Accounts payable	132,691	21	132,712
Salaries and benefits payable	358,941	285	359,226
Accrued interest payable	16,398	-	16,398
Deferred revenue:			
Succeeding year property tax	2,926,828	-	2,926,828
Other	9,006	2,887	11,893
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	125,000	-	125,000
Termination benefits	32,294	-	32,294
Portion due after one year:			
General obligation bonds payable	2,190,000	-	2,190,000
Bond premium	37,966	-	37,966
Termination benefits	4,856	-	4,856
Net OPEB liability	31,169	514	31,683
Total liabilities	5,865,149	3,707	5,868,856

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	1,912,182	48,750	1,960,932
Restricted for:			
Categorical funding			
Categorical funding	242,787	-	242,787
Management levy	336,485	-	336,485
Physical plant and equipment levy	230,603	-	230,603
Student activities	46,304	-	46,304
School infrastructure	1,076,391	-	1,076,391
Unrestricted	646,205	62,565	708,770
Total net assets	<u>4,490,957</u>	<u>111,315</u>	<u>4,602,272</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,070,746	150,080	487,191	-
Special	479,041	-	33,781	-
Other	538,923	122,643	37,503	-
	<u>3,088,710</u>	<u>272,723</u>	<u>558,475</u>	<u>-</u>
Support services:				
Student	180,225	-	-	-
Instructional staff	101,516	-	-	-
Administration	525,820	-	-	-
Operation and maintenance of plant	442,928	635	-	-
Transportation	303,404	-	3,118	-
	<u>1,553,893</u>	<u>635</u>	<u>3,118</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	1,971	-	-	-
Long-term debt interest	100,426	-	-	-
AEA flowthrough	178,437	-	178,437	-
Depreciation (unallocated)*	146,840	-	-	-
	<u>427,674</u>	<u>-</u>	<u>178,437</u>	<u>-</u>
Total governmental activities	5,070,277	273,358	740,030	-
Business type activities:				
Non-instructional programs:				
Food service operations	194,804	107,465	98,770	-
Total	<u>5,265,081</u>	<u>380,823</u>	<u>838,800</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>
(1,433,475)	-	(1,433,475)
(445,260)	-	(445,260)
(378,777)	-	(378,777)
<u>(2,257,512)</u>	<u>-</u>	<u>(2,257,512)</u>
(180,225)	-	(180,225)
(101,516)	-	(101,516)
(525,820)	-	(525,820)
(442,293)	-	(442,293)
(300,286)	-	(300,286)
<u>(1,550,140)</u>	<u>-</u>	<u>(1,550,140)</u>
(1,971)	-	(1,971)
(100,426)	-	(100,426)
-	-	-
(146,840)	-	(146,840)
<u>(249,237)</u>	<u>-</u>	<u>(249,237)</u>
(4,056,889)	-	(4,056,889)
-	11,431	11,431
<u>(4,056,889)</u>	<u>11,431</u>	<u>(4,045,458)</u>
2,578,494	-	2,578,494
146,376	-	146,376
83,967	-	83,967
208,253	-	208,253
338,838	-	338,838
1,272,678	-	1,272,678
19,387	200	19,587
8,793	-	8,793
<u>4,656,786</u>	<u>200</u>	<u>4,656,986</u>
599,897	11,631	611,528
<u>3,891,060</u>	<u>99,684</u>	<u>3,990,744</u>
<u>4,490,957</u>	<u>111,315</u>	<u>4,602,272</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,116,264	1,632,933	414,234	3,163,431
Receivables:				
Property tax:				
Delinquent	27,322	928	3,918	32,168
Succeeding year	2,504,511	247,317	175,000	2,926,828
Accounts	-	-	4,091	4,091
Due from other governments	256,773	53,613	-	310,386
Prepaid expenditures	11,901	-	6,748	18,649
Total assets	3,916,771	1,934,791	603,991	6,455,553
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	129,882	2,123	686	132,691
Salaries and benefits payable	358,941	-	-	358,941
Interfund payable	19	-	-	19
Deferred revenue:				
Succeeding year property tax	2,504,511	247,317	175,000	2,926,828
Income surtax	200,502	-	-	200,502
Other	9,006	-	-	9,006
Total liabilities	3,202,861	249,440	175,686	3,627,987
Fund balances:				
Nonspendable:				
Prepaid expenditures	11,901	-	6,748	18,649
Restricted for:				
Categorical funding	242,787	-	-	242,787
Debt service	-	-	1,618	1,618
Management levy purposes	-	-	373,635	373,635
Student activities	-	-	46,304	46,304
School infrastructure	-	1,454,748	-	1,454,748
Physical plant and equipment	-	230,603	-	230,603
Unassigned	459,222	-	-	459,222
Total fund balances	713,910	1,685,351	428,305	2,827,566
Total liabilities and fund balances	3,916,771	1,934,791	603,991	6,455,553

MARCUS-MERIDEN-CLEGHORN 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 (Exhibit C)	2,827,566
<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.	3,848,825
Unamortized bond issue costs are not financial resources and, therefore, are not reported as assets in the governmental funds.	51,747
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	200,502
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.	(16,398)
Long-term liabilities, including bonds payable, bond premiums, termination benefits and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,421,285)</u>
Net assets of governmental activities (Exhibit A)	<u><u>4,490,957</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,601,677	447,629	346,609	3,395,915
Tuition	89,664	-	-	89,664
Other	67,625	11,484	132,765	211,874
State sources	1,806,116	36	152	1,806,304
Federal sources	240,188	-	-	240,188
Total revenues	<u>4,805,270</u>	<u>459,149</u>	<u>479,526</u>	<u>5,743,945</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,057,478	6,905	40,262	2,104,645
Special	477,318	-	-	477,318
Other	401,559	-	131,087	532,646
	<u>2,936,355</u>	<u>6,905</u>	<u>171,349</u>	<u>3,114,609</u>
Support services:				
Student	179,593	-	-	179,593
Instructional staff	101,305	-	-	101,305
Administration	517,916	-	-	517,916
Operation and maintenance of plant	304,333	80,889	68,818	454,040
Transportation	243,459	2,717	11,441	257,617
	<u>1,346,606</u>	<u>83,606</u>	<u>80,259</u>	<u>1,510,471</u>
Other expenditures:				
Facilities acquisition	-	58,784	-	58,784
Long-term debt:				
Principal	-	-	120,000	120,000
Interest and fiscal charges	-	-	103,988	103,988
AEA flowthrough	178,437	-	-	178,437
	<u>178,437</u>	<u>58,784</u>	<u>223,988</u>	<u>461,209</u>
Total expenditures	<u>4,461,398</u>	<u>149,295</u>	<u>475,596</u>	<u>5,086,289</u>
Excess (deficiency) of revenues over (under) expenditures	<u>343,872</u>	<u>309,854</u>	<u>3,930</u>	<u>657,656</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Other financing sources (uses):				
Operating transfers in	-	-	75,172	75,172
Operating transfers out	-	(75,172)	-	(75,172)
Total other financing sources (uses)	-	(75,172)	75,172	-
Net change in fund balances	343,872	234,682	79,102	657,656
Fund balances beginning of year	370,038	1,450,669	349,203	2,169,910
Fund balances end of year	<u>713,910</u>	<u>1,685,351</u>	<u>428,305</u>	<u>2,827,566</u>

MARCUS-MERIDEN-CLEGHORN 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 (Exhibit E)		657,656
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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. Capital outlay expenditures and depreciation expense in the current year are as follows:		
Expenditures for capital assets	69,517	
Depreciation expense	<u>(203,986)</u>	(134,469)
Income surtaxes and other revenues not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		(73,771)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		120,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		850
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	39,677	
Other postemployment benefits	<u>(9,062)</u>	30,615
The premium on bonds issued is amortized over the life of the bonds for the Statement of Activities.		2,712
Bond issue costs are recorded as an expense for the governmental funds, but are capitalized and amortized over the life of the bonds for the Statement of Activities.		<u>(3,696)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>599,897</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2012

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	61,843
Accounts receivable	3
Interfund receivable	19
Inventories	4,407
Capital assets, net of accumulated depreciation	<u>48,750</u>
Total assets	<u>115,022</u>
Liabilities	
Accounts payable	21
Salaries and benefits payable	285
Deferred revenue	2,887
Net OPEB liability	<u>514</u>
Total liabilities	<u>3,707</u>
Net assets	
Invested in capital assets	48,750
Unrestricted	<u>62,565</u>
Total net assets	<u><u>111,315</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2012

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>107,465</u>
Operating expenses:	
Non-instructional programs:	
Salaries	70,949
Benefits	10,775
Purchased services	3,608
Supplies	102,280
Depreciation	7,192
Total operating expenses	<u>194,804</u>
Operating income (loss)	<u>(87,339)</u>
Non-operating revenues:	
State sources	1,990
Federal sources	96,780
Interest income	200
Total non-operating revenues	<u>98,970</u>
Change in net assets	11,631
Net assets beginning of year	<u>99,684</u>
Net assets end of year	<u><u>111,315</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2012

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	106,712
Cash payments to employees for services	(81,722)
Cash payments to suppliers for goods or services	(92,892)
Net cash used by operating activities	<u>(67,902)</u>
Cash flows from non-capital financing activities:	
Loan from (repaid to) General Fund	(10,719)
State grants received	1,990
Federal grants received	83,438
Net cash provided by non-capital financing activities	<u>74,709</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(3,808)</u>
Cash flows from investing activities:	
Interest on investments	<u>200</u>
Net increase (decrease) in cash and cash equivalents	3,199
Cash and cash equivalents at beginning of year	<u>58,644</u>
Cash and cash equivalents at end of year	<u><u>61,843</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	(87,339)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Commodities used	13,342
Depreciation	7,192
Decrease (increase) in inventories	(317)
Decrease (increase) in accounts receivable	153
(Decrease) increase in accounts payable	(29)
(Decrease) increase in salaries and benefits payable	2
(Decrease) increase in deferred revenue	(906)
Net cash used by operating activities	<u><u>(67,902)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received \$13,342 of federal commodities.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2012

1. Summary of Significant Accounting Policies

Marcus-Meriden-Cleghorn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Marcus, Meriden and Cleghorn Iowa and the predominately agricultural territory in a portion of Cherokee and Plymouth 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, Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District has no component units that 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's 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 attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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

The District reports the following major governmental funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	5-20 years
Intangibles	3-10 years
Furniture and equipment	5-12 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

Nonspendable – Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

Unassigned – All amounts not included in other classifications.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted.

2. **Cash and Pooled Investments**

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

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
Nonmajor Enterprise, School Nutrition Fund	General Fund	19

4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental Debt Service Fund	Capital Projects Fund	75,172

The transfer from the Capital Projects Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Capital Assets

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

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Land	11,900	-	-	11,900
Capital assets being depreciated:				
Buildings	4,914,835	56,813	-	4,971,648
Improvements other than buildings	990,154	-	-	990,154
Furniture and equipment	1,073,146	12,704	-	1,085,850
Total capital assets being deprec.	6,978,135	69,517	-	7,047,652
Less accumulated depreciation for:				
Buildings	1,806,790	108,598	-	1,915,388
Improvements other than buildings	351,743	38,242	-	389,985
Furniture and equipment	848,208	57,146	-	905,354
Total accumulated depreciation	3,006,741	203,986	-	3,210,727
Total capital assets being depreciated, net	3,971,394	(134,469)	-	3,836,925
Governmental activities capital assets, net	3,983,294	(134,469)	-	3,848,825
Business type activities:				
Furniture and equipment	133,802	3,808	5,550	132,060
Less accumulated depreciation	81,668	7,192	5,550	83,310
Business type activities capital assets, net	52,134	(3,384)	-	48,750

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	931
Special	880
Other	5,645
Support services:	
Administration services	3,154
Operation and maintenance of plant services	749
Transportation	45,787
	57,146
Unallocated depreciation	146,840
	203,986
 Business type activities:	
Food services	7,192
	7,192

6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	2,435,000	-	120,000	2,315,000	125,000
Termination benefits	76,827	-	39,677	37,150	32,294
Net OPEB liability	22,107	9,062	-	31,169	-
	2,533,934	9,062	159,677	2,383,319	157,294
 Business type activities:					
Net OPEB liability	514	-	-	514	-
	514	-	-	514	-

Termination Benefits

The District offered a voluntary early retirement plan to its employees in prior years. Eligible employees must have completed at least fifteen years of consecutive service to the District and must have reached the age of fifty-seven on or before June 30 in the calendar year in which early retirement started.

The fiscal year 2010 plan offered \$15,000 per participant, to be paid over three years.

At June 30, 2012, the District has obligations to six participants with a total liability of \$37,150. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$39,677.

General Obligation Bonds Payable

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

Bond Issue of December 2006				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2013	4.25	125,000	98,388	223,388
2014	4.25	130,000	93,075	223,075
2015	4.25	135,000	87,550	222,550
2016	4.25	140,000	81,813	221,813
2017	4.25	150,000	75,862	225,862
2018-2022	4.25	835,000	279,225	1,114,225
2023-2026	4.25	800,000	86,488	886,488
		<u>2,315,000</u>	<u>802,401</u>	<u>3,117,401</u>

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 \$204,756, \$171,872, and \$170,887 respectively, equal to the required contributions for each year.

8. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 79 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

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

	\$
Annual required contribution	30,528
Interest on net OPEB obligation	566
Adjustment to annual required contribution	<u>(2,686)</u>
Annual OPEB cost	28,408
Contributions made	<u>19,346</u>
Increase in net OPEB obligation	9,062
Net OPEB obligation beginning of year	<u>22,621</u>
 Net OPEB obligation end of year	 <u>31,683</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 \$19,346 to the medical plan. Plan members eligible for benefits contributed \$49,449, or 72% 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:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
June 30, 2010	28,093	55%	12,575
June 30, 2011	27,358	63%	22,621
June 30, 2012	28,408	68%	31,683

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 \$238,561, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$238,561. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,639,000, and the ratio of the UAAL to covered payroll was 14.6%. As of June 30, 2012, there were no trust fund assets.

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

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

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the 94 group annuity mortality table projected to 2000.

The UAAL is being amortized over 30 years.

9. Risk Management

Marcus-Meriden-Cleghorn 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 \$178,437 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 restricted fund balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Gifted and talented	10,248
Returning dropout and dropout prevention program	105,045
Teacher salary supplement	24,583
Home school assistance program	42,685
Educator quality, professional development	49,290
Youth development	3,057
Core curriculum	7,513
Mentoring	366
	<u>242,787</u>

REQUIRED SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2012

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,697,453	107,665	3,805,118	3,457,414	3,457,414	347,704
State sources	1,806,304	1,990	1,808,294	1,865,784	1,865,784	(57,490)
Federal sources	240,188	96,780	336,968	118,000	118,000	218,968
Total revenues	<u>5,743,945</u>	<u>206,435</u>	<u>5,950,380</u>	<u>5,441,198</u>	<u>5,441,198</u>	<u>509,182</u>
Expenditures/Expenses:						
Instruction	3,114,609	-	3,114,609	3,262,000	3,262,000	147,391
Support services	1,510,471	-	1,510,471	2,070,484	2,070,484	560,013
Non-instructional programs	-	194,804	194,804	199,122	199,122	4,318
Other expenditures	461,209	-	461,209	551,663	551,663	90,454
Total expenditures/expenses	<u>5,086,289</u>	<u>194,804</u>	<u>5,281,093</u>	<u>6,083,269</u>	<u>6,083,269</u>	<u>802,176</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	657,656	11,631	669,287	(642,071)	(642,071)	1,311,358
Other financing sources (uses) net	-	-	-	223,488	223,488	(223,488)
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	657,656	11,631	669,287	(418,583)	(418,583)	1,087,870
Balance beginning of year	<u>2,169,910</u>	<u>99,684</u>	<u>2,269,594</u>	<u>1,260,067</u>	<u>1,260,067</u>	<u>1,009,527</u>
Balance end of year	<u><u>2,827,566</u></u>	<u><u>111,315</u></u>	<u><u>2,938,881</u></u>	<u><u>841,484</u></u>	<u><u>841,484</u></u>	<u><u>2,097,397</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2012

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, 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 a GAAP basis.

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

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	291,619	291,619	0.0%	1,695,000	17.2%
2011	July 1, 2009	-	269,098	269,098	0.0%	1,747,000	15.4%
2012	July 1, 2009	-	238,561	238,561	0.0%	1,639,000	14.6%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

Assets	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Cash and pooled investments	371,335	42,899	-	414,234
Receivables:				
Property tax:				
Delinquent	2,300	-	1,618	3,918
Succeeding year	175,000	-	-	175,000
Accounts	-	4,091	-	4,091
Prepaid expenditures	6,748	-	-	6,748
Total assets	555,383	46,990	1,618	603,991
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	686	-	686
Deferred revenue:				
Succeeding year property tax	175,000	-	-	175,000
Total liabilities	175,000	686	-	175,686
Fund balances:				
Nonspendable prepaid expenses	6,748	-	-	6,748
Restricted for:				
Debt service	-	-	1,618	1,618
Management levy	373,635	-	-	373,635
Student activities	-	46,304	-	46,304
Total fund balances	380,383	46,304	1,618	428,305
Total liabilities and fund balances	555,383	46,990	1,618	603,991

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2012

	Special Revenue Funds			Total
	Management	Student	Debt	
	Levy	Activity	Service	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	200,233	-	146,376	346,609
Other	10,616	122,149	-	132,765
State sources	89	-	63	152
Total revenues	<u>210,938</u>	<u>122,149</u>	<u>146,439</u>	<u>479,526</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	40,262	-	-	40,262
Other instruction	-	131,087	-	131,087
Support services:				
Operation and maintenance of plant	68,818	-	-	68,818
Transportation services	11,441	-	-	11,441
Other expenditures:				
Long-term debt:				
Principal	-	-	120,000	120,000
Interest and fiscal charges	-	-	103,988	103,988
Total expenditures	<u>120,521</u>	<u>131,087</u>	<u>223,988</u>	<u>475,596</u>
Net change in fund balances	90,417	(8,938)	(77,549)	3,930
Other financing sources (uses):				
Operating transfers in	-	-	75,172	75,172
Net change in fund balances	90,417	(8,938)	(2,377)	79,102
Fund balances beginning of year	<u>289,966</u>	<u>55,242</u>	<u>3,995</u>	<u>349,203</u>
Fund balances end of year	<u><u>380,383</u></u>	<u><u>46,304</u></u>	<u><u>1,618</u></u>	<u><u>428,305</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Project Accounts

June 30, 2012

Assets	Capital Projects			Total
	Construction	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$	\$
Cash and pooled investments	378,357	1,022,778	231,798	1,632,933
Receivables:				
Property tax:				
Delinquent	-	-	928	928
Succeeding year	-	-	247,317	247,317
Due from other governments	-	53,613	-	53,613
Total assets	378,357	1,076,391	480,043	1,934,791
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	-	2,123	2,123
Deferred revenue:				
Succeeding year property tax	-	-	247,317	247,317
Total liabilities	-	-	249,440	249,440
Fund balances:				
Restricted for:				
School infrastructure	378,357	1,076,391	-	1,454,748
Physical plant and equipment	-	-	230,603	230,603
Total fund balances	378,357	1,076,391	230,603	1,685,351
Total liabilities and fund balances	378,357	1,076,391	480,043	1,934,791

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Capital Project Accounts

Year ended June 30, 2012

	Capital Projects			Total
	Construction	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	-	338,838	108,791	447,629
Other	3,449	6,090	1,945	11,484
State sources	-	-	36	36
Total revenues	<u>3,449</u>	<u>344,928</u>	<u>110,772</u>	<u>459,149</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	-	-	6,905	6,905
Support services:				
Operation and maintenance of plant	-	21,786	59,103	80,889
Transportation services	-	-	2,717	2,717
Other expenditures:				
Facilities acquisition	-	31,753	27,031	58,784
Total expenditures	<u>-</u>	<u>53,539</u>	<u>95,756</u>	<u>149,295</u>
Excess (deficiency) of revenues over (under) expenditures	3,449	291,389	15,016	309,854
Other financing sources (uses):				
Operating transfers out	<u>(75,172)</u>	<u>-</u>	<u>-</u>	<u>(75,172)</u>
Net change in fund balance	(71,723)	291,389	15,016	234,682
Fund balances beginning of year	<u>450,080</u>	<u>785,002</u>	<u>215,587</u>	<u>1,450,669</u>
Fund balance end of year	<u><u>378,357</u></u>	<u><u>1,076,391</u></u>	<u><u>230,603</u></u>	<u><u>1,685,351</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2012

Account	Balance	Revenues	Expenditures	Intra-Fund	Balance
	Beginning of				
	Year				
	\$	\$	\$	\$	\$
Boys basketball	6,775	6,069	4,770	-	8,074
Football	(59)	7,464	11,545	-	(4,140)
Girls basketball	5,004	8,353	5,887	-	7,470
Baseball	(4,834)	3,496	3,864	-	(5,202)
Golf	965	1,154	1,302	-	817
Bowling	(519)	2,336	1,817	-	-
Boys track	(1,509)	4,333	2,824	-	-
Girls track	(591)	3,988	3,397	-	-
Wrestling	(5,852)	2,546	3,557	-	(6,863)
Softball	2,285	12,698	9,928	-	5,055
Volleyball	878	6,575	6,355	-	1,098
Yearbook	7,516	4,855	7,716	-	4,655
Pep/Jazz band	1,956	-	567	-	1,389
Vocal	1,331	-	19	-	1,312
Student council	6,375	7,439	10,696	-	3,118
Leadership club	892	2,310	3,202	-	-
PTSA	343	-	-	(343)	-
TSA	491	-	-	-	491
Speech	39	1,304	1,343	-	-
Cheerleaders	1,997	1,937	2,618	-	1,316
Art club	924	-	-	(924)	-
Drama club	1,078	467	1,032	-	513
Drill team	8,821	7,314	8,378	-	7,757
Spanish club	999	-	-	(999)	-
Library club	1,979	-	-	(1,979)	-
National Honor Society	10	968	978	-	-
FCS	822	3,861	4,683	-	-
Lettermans club	(236)	12,557	15,801	4,284	804
Class of 2010	411	-	-	(411)	-
Class of 2011	(373)	-	-	373	-
Class of 2012	1,550	545	1,393	-	702
Class of 2013	1,548	3,649	3,865	-	1,332
Class of 2014	540	440	-	-	980
Class of 2015	-	550	-	-	550
Class of 2016	-	680	74	-	606
Class of 2017	-	500	74	-	426
MS home economics	219	-	-	(219)	-
MS athletics	1,071	4,264	5,592	257	-
Family communication	38	-	-	(38)	-
Elementary activities	387	-	-	(387)	-
Kathy's Kids	6,907	5,551	5,214	386	7,630
Science club	155	2,528	2,596	-	87
Odyssey of the mind	4,909	1,418	-	-	6,327
Totals	55,242	122,149	131,087	-	46,304

See accompanying independent auditor's report.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Nine Years

	Modified Accrual Basis								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:									
Local sources:									
Local tax	3,395,915	3,262,342	2,937,805	2,771,764	2,658,572	2,441,309	2,456,381	2,453,453	2,440,231
Tuition	89,664	96,036	107,431	108,099	120,433	118,182	119,589	151,067	126,867
Other	211,874	195,118	202,767	197,959	281,187	311,809	211,633	205,012	222,319
State sources	1,806,304	1,644,663	1,321,757	1,871,249	2,145,836	2,252,263	2,025,513	2,225,828	1,841,556
Federal sources	240,188	321,106	288,841	134,953	142,060	184,381	186,720	221,771	98,990
Total revenues	<u>5,743,945</u>	<u>5,519,265</u>	<u>4,858,601</u>	<u>5,084,024</u>	<u>5,348,088</u>	<u>5,307,944</u>	<u>4,999,836</u>	<u>5,257,131</u>	<u>4,729,963</u>
Expenditures:									
Instruction:									
Regular	2,104,645	2,098,775	1,939,257	2,067,648	2,183,502	2,203,337	2,211,222	2,101,243	2,171,633
Special	477,318	413,724	422,877	428,166	632,698	558,010	542,040	469,336	642,272
Other	532,646	485,707	458,977	509,522	478,531	537,800	536,757	537,082	393,645
Support services:									
Student	179,593	166,450	174,952	146,292	143,693	135,050	122,808	118,025	118,156
Instructional staff	101,305	80,397	102,836	140,876	68,179	93,390	80,638	128,593	85,520
Administration	517,916	533,386	506,793	538,342	531,691	590,186	538,965	493,963	479,096
Operation and maintenance	454,040	378,001	392,342	446,572	456,669	361,244	367,876	355,548	367,319
Transportation	257,617	320,710	332,894	214,000	285,824	197,448	211,876	247,936	184,288
Non-instructional programs	-	-	-	-	-	-	16,031	-	-
Other expenditures:									
Facilities acquisition	58,784	178,255	290,623	320,186	2,680,970	464,520	119,032	219,509	315,644
Long-term debt:									
Principal	120,000	115,000	110,000	105,000	55,000	-	-	-	-
Interest and other charges	103,988	108,825	113,450	117,712	169,787	-	-	-	-
AEA flowthrough	178,437	201,353	196,288	184,244	181,904	179,599	172,997	174,587	171,131
Total expenditures	<u>5,086,289</u>	<u>5,080,583</u>	<u>5,041,289</u>	<u>5,218,560</u>	<u>7,868,448</u>	<u>5,320,584</u>	<u>4,920,242</u>	<u>4,845,822</u>	<u>4,928,704</u>

See accompanying independent auditor's report.

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

To the Board of Education of
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 13, 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 Marcus-Meriden-Cleghorn Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, 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 deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 12-I-A, 12-I-B, and 12-I-C to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marcus-Meriden-Cleghorn 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 and Responses.

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.

Marcus-Meriden-Cleghorn Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District and other parties to whom Marcus-Meriden-Cleghorn Community School District may report, 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 Marcus-Meriden-Cleghorn 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

March 13, 2013

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

12-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, processing payroll, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

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

Conclusion: Response accepted.

12-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

12-I-C School Expenditure Supporting Documentation and Board Approval: We reviewed the supporting documentation for July 2011 through December 2011 credit card bills totaling \$19,250. We noted that detailed supporting documentation was missing for \$2,270 of July through December credit card bills.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements (continued):

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

District Response: We will obtain detailed supporting documentation for all expenditures.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

12-II-A Certified Budget: Expenditures for the year ended June 30, 2012, did not exceed the amounts budgeted.

12-II-B Questionable Expenditures: No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

12-II-C Travel Expenses: 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.

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Brian Mugge, Board Member, Owner of Mugge Lite Construction	Repairs	168
Jerry Moser, Board Member	Athletic Official	360
Steve Liddle, employee, Owner of S & R Farms Ltd.	Spraying	2,665

These transactions do not appear to be conflicts of interest. The District may do business with board members if the amount is less than \$2,500 or if the job is bid.

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

12-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

12-II-G Certified Enrollment: The number of resident students reported to the Iowa Department of Education at October 2011, was overstated by 1.9 students.

Recommendation: The District should establish procedures to review the student information in the District's software before the enrollment is certified.

District Response: Last year we had new staff doing the certification process. These employees are now more familiar with the software and the students.

Conclusion: Response accepted.

12-II-H Supplementary Weighting: No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (continued):

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

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the following information includes the amounts reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2012 audit:

Beginning balance	\$	\$
		785,002
Revenues/transfers in:		
Statewide sales, services and use tax revenue	338,838	
Other	6,090	344,928
	<u> </u>	
Expenditures/transfers out:		
School infrastructure construction	550	
Equipment	34,078	
Other	18,911	53,539
	<u> </u>	<u> </u>
Ending balance		<u>1,076,391</u>

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

- 12-II-M Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2012

Part II: Other Findings Related to Required Statutory Reporting (continued):

District Response: We are reviewing the accounts and making the necessary adjustments.

Conclusion: Response accepted.

12-II-N Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2012.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.