

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013

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East Marshall Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Terry Collins	President	2013
Julie Schossow	Vice President	2013
Deanna Berkey	Board Member	2015
Terry Thompson	Board Member	2015
Tonya Dixon	Board Member	2013
School Officials		
Dianne Anderson	Superintendent	2013
Nancy Burchland	Business Manager/ Board Secretary	2013
Cartwright, Druker and Ryden	Attorney	2013

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District, Gilman, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 17 and 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Marshall Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 8 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2014 on our consideration of East Marshall Community School District's internal control over financial reporting and on 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 in considering East Marshall Community School District's internal control over financial reporting and compliance.



NOLTE, CORNMAN & JOHNSON, P.C.

March 25, 2014
Newton, Iowa

East Marshall Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Marshall 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, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$9,004,997 in fiscal 2012 to \$8,339,240 in fiscal 2013, while General Fund expenditures decreased from \$8,664,655 in fiscal 2012 to \$8,594,202 in fiscal 2013. Overall, the District's General Fund balance decreased from \$1,419,573 in fiscal 2012 to \$1,164,611 in fiscal 2013, a 17.96% decrease from the prior year.
- The decrease in General Fund revenues was attributable to decreases in state and federal sources of revenue in fiscal 2013. The decrease in expenditures was due primarily to decreased expenses related to the District's energy loan indebtedness.

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 Position and a Statement of Activities. These provide information about the activities of East Marshall Community School District as a whole and present an overall view of the District's finances.

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

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds, Capital Projects Accounts and the Private Purpose Trust Fund.

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

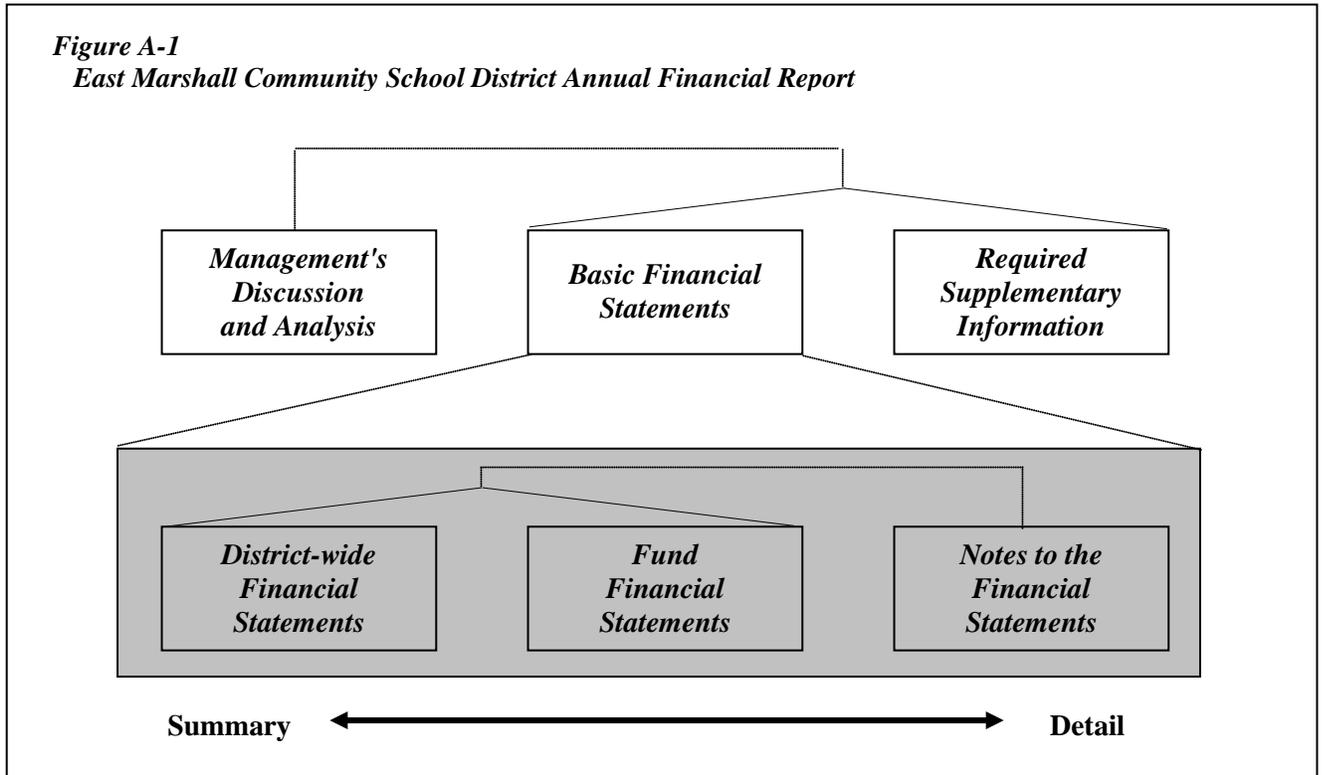


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, e.g., food service	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 position • 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 position • Statement of revenues, expenses and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position 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 position and how it has changed. Net position - the difference between the District’s assets and liabilities - is one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net position is an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health, additional non-financial factors, such as changes in the District’s property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

The required financial statements for fiduciary funds include a statement of fiduciary net position and a statement of changes in fiduciary net position.

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 position for the year ended June 30, 2013 compared to June 30, 2012.

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 9,965,347	6,394,008	180,176	187,642	10,145,523	6,581,650	54.15%
Capital assets	9,176,658	9,337,707	79,094	92,538	9,255,752	9,430,245	-1.85%
Total assets	<u>19,142,005</u>	<u>15,731,715</u>	<u>259,270</u>	<u>280,180</u>	<u>19,401,275</u>	<u>16,011,895</u>	<u>21.17%</u>
Long-term obligations	4,032,109	5,415,756	37,515	4,920	4,069,624	5,420,676	-24.92%
Other liabilities	8,762,078	4,047,873	6,666	37,551	8,768,744	4,085,424	114.63%
Total liabilities	<u>12,794,187</u>	<u>9,463,629</u>	<u>44,181</u>	<u>42,471</u>	<u>12,838,368</u>	<u>9,506,100</u>	<u>35.05%</u>
Net position:							
Invested in capital assets, net of related debt	4,662,478	4,533,074	79,094	92,538	4,741,572	4,625,612	2.51%
Restricted	1,054,773	828,118	-	-	1,054,773	828,118	27.37%
Unrestricted	630,567	906,894	135,995	145,171	766,562	1,052,065	-27.14%
Total net position	<u>\$ 6,347,818</u>	<u>6,268,086</u>	<u>215,089</u>	<u>237,709</u>	<u>6,562,907</u>	<u>6,505,795</u>	<u>0.88%</u>

The District's combined net position increased by 0.88%, or \$57,112, over the prior year. The largest portion of the District's net position is the invested in capital assets, net of related debt category. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$226,655, or 27.37% from the prior year. The increase in restricted net position is primarily due to the increase in fund balance in the Management Levy Fund and the Capital Projects: Statewide Sales, Services, and Use Tax Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$285,503, or 27.14%. The decrease in unrestricted net position is primarily due to the decrease in the General Fund ending balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to the year ended June 30, 2012.

	Figure A-4						
	Changes of Net Position						
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
2013	2012	2013	2012	2013	2012	2012-13	
Revenues:							
Program revenues:							
Charges for services	\$ 2,237,540	1,989,745	177,271	193,939	2,414,811	2,183,684	10.58%
Operating grants, contributions and restricted interest	479,166	951,288	232,966	224,734	712,132	1,176,022	-39.45%
Capital grants, contributions and restricted interest	59,200	-	-	-	59,200	-	100.00%
General revenues:							
Property tax	2,853,711	2,927,096	-	-	2,853,711	2,927,096	-2.51%
Income surtax	291,553	307,895	-	-	291,553	307,895	-5.31%
Statewide sales, services and use tax	559,708	505,488	-	-	559,708	505,488	10.73%
Nonspecific program federal funding	-	48,907	-	-	-	48,907	-100.00%
Unrestricted state grants	3,242,590	3,195,030	-	-	3,242,590	3,195,030	1.49%
Unrestricted interest earnings	18,742	17,071	728	933	19,470	18,004	8.14%
Other	96,499	100,445	-	815	96,499	101,260	-4.70%
Total revenues	<u>9,838,709</u>	<u>10,042,965</u>	<u>410,965</u>	<u>420,421</u>	<u>10,249,674</u>	<u>10,463,386</u>	<u>-2.04%</u>
Program expenses:							
Governmental activities:							
Instruction	5,836,674	5,531,833	-	-	5,836,674	5,531,833	5.51%
Support services	3,104,919	3,141,987	35,081	21,311	3,140,000	3,163,298	-0.74%
Non-instructional programs	4,991	5,268	398,504	384,425	403,495	389,693	3.54%
Other expenses	812,393	724,559	-	-	812,393	724,559	12.12%
Total expenses	<u>9,758,977</u>	<u>9,403,647</u>	<u>433,585</u>	<u>405,736</u>	<u>10,192,562</u>	<u>9,809,383</u>	<u>3.91%</u>
Change in net position	79,732	639,318	(22,620)	14,685	57,112	654,003	-91.27%
Beginning net position	<u>6,268,086</u>	<u>5,628,768</u>	<u>237,709</u>	<u>223,024</u>	<u>6,505,795</u>	<u>5,851,792</u>	<u>11.18%</u>
Ending net position	<u>\$ 6,347,818</u>	<u>6,268,086</u>	<u>215,089</u>	<u>237,709</u>	<u>6,562,907</u>	<u>6,505,795</u>	<u>0.88%</u>

In fiscal 2013, property tax and unrestricted state grants account for 61.96% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.82% of the revenue from business type activities.

The District's total revenues were approximately \$10.25 million of which \$9.84 million was for governmental activities and \$0.41 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 2.04% in revenues and a 3.91% increase in expenses. The increase in expenses was related to an increase in instructional costs and other expenses (including long-term debt, AEA flowthrough and unallocated depreciation).

Governmental Activities

Revenues for governmental activities were \$9,838,709 and expenses were \$9,758,977. 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, for the year ended June 30, 2013 compared to the year ended June 30, 2012.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 5,836,674	5,531,833	5.51%	3,413,478	2,932,681	16.39%
Support services	3,104,919	3,141,987	-1.18%	3,024,494	3,082,590	-1.88%
Non-instructional	4,991	5,268	-5.26%	4,991	5,268	-5.26%
Other expenses	812,393	724,559	12.12%	540,108	442,075	22.18%
Totals	\$ 9,758,977	9,403,647	3.78%	6,983,071	6,462,614	8.05%

For the year ended June 30, 2013:

- The cost financed by users of the District's programs was \$2,237,540.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$538,366.
- The net cost of governmental activities was financed with \$2,853,711 in property tax, \$291,553 in income surtax, \$559,708 in statewide sales, services and use tax, \$3,242,590 in unrestricted state grants, \$18,742 in interest income and \$96,499 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$410,965 and expenses were \$433,585. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,671,578, above last year's ending fund balances of a \$2,082,174. This is primarily due to the increase in the Debt Service Fund balance resulting from the issuance of crossover refunding bonds.

Governmental Fund Highlights

The District's General Fund financial position is the product of many factors:

- The General Fund balance decreased from \$1,419,573 in fiscal year 2012 to \$1,164,611 in fiscal year 2013. A decrease in state and federal sources of revenue, and an increase in instructional expenditures helped contribute to the decrease in fund balance.
- The fund balance in the Debt Service Fund increased from \$4,305 in fiscal 2012 to \$3,524,409 in fiscal 2013. The increase is due to the issuance of crossover refunding bonds.

Proprietary Fund Highlights

The Proprietary Fund net position decreased from \$237,709 at June 30, 2012 to \$215,089 at June 30, 2013, representing a decrease of 9.52%. The decrease in net position was the result of increased support services expenditures.

BUDGETARY HIGHLIGHTS

The District's revenues were \$27,069 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more from local 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 ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$9,255,752, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.85% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$450,164.

The original cost of the District's capital assets was \$15,190,356. Governmental funds account for \$14,939,806 with the remainder of \$250,550 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$377,348 at June 30, 2012, compared to \$0 at June 30, 2013. The decrease in construction in progress is due to the completion of a High School heat pump project during the year.

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 120,725	120,725	-	-	120,725	120,725	0.00%
Construction in progress	-	377,348	-	-	-	377,348	-100.00%
Buildings	8,339,887	8,146,639	-	-	8,339,887	8,146,639	2.37%
Land improvements	323,842	235,841	-	-	323,842	235,841	37.31%
Machinery and equipment	392,204	457,154	79,094	92,538	471,298	549,692	-14.26%
Total	\$ 9,176,658	9,337,707	79,094	92,538	9,255,752	9,430,245	-1.85%

Long-Term Debt

At June 30, 2013, the District had \$8,768,744 in long-term debt outstanding. This represents an increase of 61.76% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2013	2012	2013	2012	2013	2012	2012-13
General obligation bonds	\$ 7,335,000	3,950,000	-	-	7,335,000	3,950,000	85.70%
Energy loan notes	480,531	543,000	-	-	480,531	543,000	-11.50%
Capital loan notes	215,000	315,000	-	-	215,000	315,000	-31.75%
Compensated absences	44,336	37,904	-	-	44,336	37,904	16.97%
Termination benefits	309,598	326,295	-	-	309,598	326,295	-5.12%
Net OPEB obligation	377,613	243,557	6,666	4,920	384,279	248,477	54.65%
Total	\$ 8,762,078	5,415,756	6,666	4,920	8,768,744	5,420,676	61.76%

The District had general obligation bonds payable of \$7,335,000 at June 30, 2013.

The District had energy loan notes payable of \$480,531 at June 30, 2013, payable from the General Fund.

The District had capital loan notes payable of \$215,000 at June 30, 2013, payable from the Capital Projects: Physical Plant and Equipment Levy Fund.

The District had compensated absences payable of \$44,336 at June 30, 2013.

The District had termination benefits payable of \$309,598 at June 30, 2013, payable from the Management Levy Fund.

The District had a net OPEB liability of \$377,613 in the governmental activities and \$6,666 in the business type activities.

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 instructional support program allows the district to generate 10% of the total regular program district cost for the budget year for additional or enhanced current educational programs. The District can participate in the instructional support program by either holding an election, which allows participation for ten years, or by board resolution, which allows participation for five years. The East Marshall School Board implemented the program by resolution for a period of five years starting with 2002-03. The program is funded with a combination of state aid, property tax and income surtax. Income surtax is paid in the year following the year it is levied. On July 10, 2006, the board adopted a resolution to continue participation in the instructional support program for an additional five-year period through June 30, 2012. On November 14, 2011, the board adopted a resolution to continue the instructional support program for an additional five-year period through June 30, 2017.

Fiscal Year	Instructional Support Levy	ISL State Aid	Income Surtax	Property Tax
2013-14	\$ 310,487	\$ -	\$ 286,730	\$ 23,757
2012-13	\$ 316,801	\$ -	\$ 298,112	\$ 18,689
2011-12	\$ 313,289	\$ -	\$ 293,303	\$ 19,986
2010-11	\$ 325,358	\$ -	\$ 310,613	\$ 2,771
2009-10	\$ 330,035	\$ 22,045	\$ 306,068	\$ 1,922
2008-09	\$ 324,570	\$ 23,987	\$ 277,317	\$ 23,266
2007-08	\$ 317,699	\$ 26,690	\$ 260,620	\$ 30,389
2006-07	\$ 316,157	\$ 27,797	\$ 273,019	\$ 15,341
2005-06	\$ 318,391	\$ 29,809	\$ 278,567	\$ 10,015
2004-05	\$ 322,049	\$ 31,372	\$ 282,711	\$ 7,606
2003-04	\$ 329,366	\$ 34,096	\$ 263,457	\$ 31,813

- The District resident enrollment trend over the past five years is downward by an average of 15 students per year.
- The District continues to have increasing open enrolled students. In 2010-11, open enrollment revenues were \$1,517,912, an increase of \$168,394 over 2009-10. In 2011-12, open enrollment revenues were \$1,729,305, an increase of \$211,393 over 2010-11. In 2012-13, open enrollment revenues were \$1,960,894, an increase of \$231,589 over 2011-12.

Fiscal Year	Enrolled In	Enrolled Out
2013-2014	329.1	35.1
2012-2013	296.2	38.1
2011-2012	264.2	35.1
2010-2011	238.2	40.2
2009-2010	220	41.7
2008-2009	209	46.6
2007-2008	202	45.6
2006-2007	193	49.7
2005-2006	181	50.8
2004-2005	140	43.5
2003-2004	120	43.7

- Property tax values continue to increase slightly. The PPEL and PERL levies, fixed dollar levies, will generate more dollars because of the increased valuation. Increasing valuations allow the District to lower the property tax rate for the General Fund, Management Fund, and Debt Service Fund.
- The increase in required employer's contribution to the Iowa Public Employees' Retirement System (IPERS) to 8.93% on July 1, 2013 will increase the East Marshall School District's employer benefit costs during fiscal 2014.
- On April 1, 2009, the District issued \$590,000 of General Obligation PPEL Capital Loan Notes. The financing was used to complete a remodeling project at the middle school to address fire code citations and accessibility issues. The notes will be repaid over the next five years using the voter approved Physical Plant and Equipment Levy (PPEL).
- On March 1, 2012, the District issued \$273,000 of Energy Management Improvement Capital Loan Notes, Series 2012. The loan is financed by the State Energy Revolving Loan Fund. The loan was used to partially finance the replacement of the high school HVAC system with an energy efficient geothermal system. The loan will be repaid with the energy savings from the general fund.

-
- On June 26, 2012, the District sold \$3,620,000 General Obligation Refunding Bonds to perform a crossover advance refunding of the 2005 Bonds. Certain proceeds of the Refunding Bonds were used to purchase U.S. Treasury Obligations and placed into an escrow. The escrow will be used to A) redeem on May 1, 2014 the 2005 Bonds due on or after May 1, 2015, at par, and B) pay the interest due on the Refunding Bonds through May 1, 2014. The sale of the Refunding Bonds will result in an interest savings of \$335,728.

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 Nancy Burchland, District Business Manager, East Marshall Community School District, 225 South Elm Street, Gilman, Iowa, 50106.

East Marshall Community School District

BASIC FINANCIAL STATEMENTS

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments:			
U.S. Treasury Securities on deposit			
with escrow agent	\$ 3,516,351	-	3,516,351
Other	2,625,076	172,243	2,797,319
Receivables:			
Property tax:			
Delinquent	41,800	-	41,800
Succeeding year	2,981,581	-	2,981,581
Income surtax	298,112	-	298,112
Accounts	166	-	166
Due from other governments	502,261	-	502,261
Inventories	-	7,933	7,933
Capital assets, net of accumulated depreciation	9,176,658	79,094	9,255,752
TOTAL ASSETS	19,142,005	259,270	19,401,275
LIABILITIES			
Accounts payable	102,109	11	102,120
Salaries and benefits payable	907,751	29,708	937,459
Accrued interest payable	36,452	-	36,452
Deferred revenue:			
Succeeding year property tax	2,981,581	-	2,981,581
Other	4,216	-	4,216
Unearned revenue	-	7,796	7,796
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	245,000	-	245,000
Capital loan notes payable	105,000	-	105,000
Energy loan notes payable	68,809	-	68,809
Termination benefits payable	103,285	-	103,285
Compensated absences payable	44,336	-	44,336
Portion due after one year:			
General obligation bonds payable	7,090,000	-	7,090,000
Capital loan notes payable	110,000	-	110,000
Energy loan notes payable	411,722	-	411,722
Termination benefits payable	206,313	-	206,313
Net OPEB liability	377,613	6,666	384,279
TOTAL LIABILITIES	12,794,187	44,181	12,838,368
NET POSITION			
Invested in capital assets, net of related debt	4,662,478	79,094	4,741,572
Restricted for:			
Categorical funding	192,607	-	192,607
Student activities	106,832	-	106,832
Public education and recreation levy	35,616	-	35,616
School infrastructure	633,169	-	633,169
Physical plant and equipment levy	86,549	-	86,549
Unrestricted	630,567	135,995	766,562
TOTAL NET POSITION	\$ 6,347,818	215,089	6,562,907

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT B

**EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest		Govern- mental Activities	Business Type Activities	Total
Expenses							
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 3,548,680	1,519,651	39,484	-	(1,989,545)	-	(1,989,545)
Special	1,260,711	523,382	36,205	-	(701,124)	-	(701,124)
Other	1,027,283	191,784	112,690	-	(722,809)	-	(722,809)
	<u>5,836,674</u>	<u>2,234,817</u>	<u>188,379</u>	<u>-</u>	<u>(3,413,478)</u>	<u>-</u>	<u>(3,413,478)</u>
Support services:							
Student	343,904	-	-	-	(343,904)	-	(343,904)
Instructional staff	286,783	-	4,673	-	(282,110)	-	(282,110)
Administration	999,973	-	-	-	(999,973)	-	(999,973)
Operation and maintenance of plant	851,272	-	-	59,200	(792,072)	-	(792,072)
Transportation services	622,987	2,723	13,829	-	(606,435)	-	(606,435)
	<u>3,104,919</u>	<u>2,723</u>	<u>18,502</u>	<u>59,200</u>	<u>(3,024,494)</u>	<u>-</u>	<u>(3,024,494)</u>
Non-instructional programs:							
Community service operations	4,991	-	-	-	(4,991)	-	(4,991)
Long-term debt interest	270,946	-	-	-	(270,946)	-	(270,946)
Other expenses:							
AEA flowthrough	272,285	-	272,285	-	-	-	-
Depreciation(unallocated)*	269,162	-	-	-	(269,162)	-	(269,162)
	<u>541,447</u>	<u>-</u>	<u>272,285</u>	<u>-</u>	<u>(269,162)</u>	<u>-</u>	<u>(269,162)</u>
Total governmental activities	9,758,977	2,237,540	479,166	59,200	(6,983,071)	-	(6,983,071)
Business type activities:							
Support services:							
Administration	21,306	-	-	-	-	(21,306)	(21,306)
Operation and maintenance of plant	13,775	-	-	-	-	(13,775)	(13,775)
Total support services	<u>35,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(35,081)</u>	<u>(35,081)</u>
Non-instructional programs:							
Nutrition services	398,504	177,271	232,966	-	-	11,733	11,733
Total business type activities	<u>433,585</u>	<u>177,271</u>	<u>232,966</u>	<u>-</u>	<u>-</u>	<u>(23,348)</u>	<u>(23,348)</u>
Total	<u>\$ 10,192,562</u>	<u>2,414,811</u>	<u>712,132</u>	<u>59,200</u>	<u>(6,983,071)</u>	<u>(23,348)</u>	<u>(7,006,419)</u>
General Revenues:							
Property tax levied for:							
General purposes				\$	2,402,006	-	2,402,006
Capital outlay					223,831	-	223,831
Debt service					227,874	-	227,874
Income surtax					291,553	-	291,553
Statewide sales, services and use tax					559,708	-	559,708
Unrestricted state grants					3,242,590	-	3,242,590
Unrestricted investment earnings					18,742	728	19,470
Other					96,499	-	96,499
Total general revenues					<u>7,062,803</u>	<u>728</u>	<u>7,063,531</u>
Change in net position					79,732	(22,620)	57,112
Net position beginning of year					6,268,086	237,709	6,505,795
Net position end of year				\$	<u>6,347,818</u>	<u>215,089</u>	<u>6,562,907</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Debt Service	Nonmajor	Total
ASSETS				
Cash and pooled investments:				
U.S. Treasury Securities on deposit with escrow agent	\$ -	3,516,351	-	3,516,351
Other	1,791,157	4,702	829,217	2,625,076
Receivables:				
Property tax:				
Delinquent	31,663	3,338	6,799	41,800
Succeeding year	2,290,014	223,963	467,604	2,981,581
Income surtax	298,112	-	-	298,112
Accounts	166	-	-	166
Due from other governments	344,147	18	158,096	502,261
TOTAL ASSETS	\$ 4,755,259	3,748,372	1,461,716	9,965,347
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	91,971	-	10,138	102,109
Salaries and benefits payable	906,728	-	1,023	907,751
Deferred revenue:				
Succeeding year property tax	2,290,014	223,963	467,604	2,981,581
Income surtax	298,112	-	-	298,112
Other	3,823	-	393	4,216
Total liabilities	3,590,648	223,963	479,158	4,293,769
Fund balances:				
Restricted for:				
Categorical funding	192,607	-	-	192,607
Debt service	-	3,524,409	-	3,524,409
Management levy purposes	-	-	120,392	120,392
Student activities	-	-	106,832	106,832
Public education and recreation levy	-	-	35,616	35,616
School infrastructure	-	-	633,169	633,169
Physical plant and equipment	-	-	86,549	86,549
Unassigned	972,004	-	-	972,004
Total fund balances	1,164,611	3,524,409	982,558	5,671,578
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,755,259	3,748,372	1,461,716	9,965,347

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 22)	\$ 5,671,578
 <i>Amounts reported for governmental activities in the Statement of Net Position 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.	9,176,658
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	298,112
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(36,452)
Long-term liabilities, including general obligation bonds, energy loan notes, capital loan notes, compensated absences, termination benefits, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,762,078)</u>
Net position of governmental activities(page 20)	<u><u>\$ 6,347,818</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Debt			Total
	General	Service	Nonmajor	
REVENUES:				
Local sources:				
Local tax	\$ 2,448,458	227,874	922,835	3,599,167
Tuition	2,015,452	-	-	2,015,452
Other	145,682	7,535	258,771	411,988
Intermediate sources	811	-	-	811
State sources	3,537,372	121	101,243	3,638,736
Federal sources	167,746	-	-	167,746
Total revenues	<u>8,315,521</u>	<u>235,530</u>	<u>1,282,849</u>	<u>9,833,900</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,359,732	-	186,501	3,546,233
Special	1,219,627	-	-	1,219,627
Other	840,618	-	166,066	1,006,684
	<u>5,419,977</u>	<u>-</u>	<u>352,567</u>	<u>5,772,544</u>
Support services:				
Student	341,879	-	914	342,793
Instructional staff	291,691	-	1,886	293,577
Administration	917,352	-	12,570	929,922
Operation and maintenance of plant	781,667	-	84,492	866,159
Transportation	492,574	-	45,762	538,336
	<u>2,825,163</u>	<u>-</u>	<u>145,624</u>	<u>2,970,787</u>
Non-instructional programs:				
Community service operations	865	-	4,126	4,991
Capital outlay	-	-	172,921	172,921
Long-term debt:				
Principal	-	397,469	-	397,469
Interest and fiscal charges	-	263,836	-	263,836
	<u>-</u>	<u>661,305</u>	<u>-</u>	<u>661,305</u>
Other expenditures:				
AEA flowthrough	272,285	-	-	272,285
TOTAL EXPENDITURES	<u>8,518,290</u>	<u>661,305</u>	<u>675,238</u>	<u>9,854,833</u>
Excess(Deficiency) of revenues over(under) expenditures	(202,769)	(425,775)	607,611	(20,933)
Other financing sources(uses):				
Transfer in	5,862	353,399	50,711	409,972
Transfer out	(75,912)	-	(334,060)	(409,972)
Sale of equipment	5,333	-	-	5,333
Crossover refunding bond issuance	-	3,620,000	-	3,620,000
Discount on crossover refunding bond issuance	-	(27,520)	-	(27,520)
Insurance proceeds	12,524	-	-	12,524
Total other financing sources(uses)	<u>(52,193)</u>	<u>3,945,879</u>	<u>(283,349)</u>	<u>3,610,337</u>
Change in fund balances	(254,962)	3,520,104	324,262	3,589,404
Fund balance beginning of year	1,419,573	4,305	658,296	2,082,174
Fund balance end of year	<u>\$ 1,164,611</u>	<u>3,524,409</u>	<u>982,558</u>	<u>5,671,578</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL 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, 2013

Change in fund balances - total governmental funds(page 24) \$ 3,589,404

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

Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlay and depreciation expense in the year are as follows:

Capital outlay	\$ 275,671	
Depreciation expense	(436,720)	(161,049)

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

Issued	(3,620,000)	
Repaid	397,469	(3,222,531)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 4,809

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. (7,110)

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	16,697	
Compensated absences	(6,432)	
Other postemployment benefits	(134,056)	(123,791)

Change in net position of governmental activities(page 21) \$ 79,732

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 172,243
Inventories	7,933
Capital assets, net of accumulated depreciation	79,094
TOTAL ASSETS	<u>259,270</u>
LIABILITIES	
Accounts payable	11
Salaries and benefits payable	29,708
Unearned revenue	7,796
Net OPEB liability	6,666
TOTAL LIABILITIES	<u>44,181</u>
NET POSITION	
Invested in capital assets	79,094
Unrestricted	135,995
TOT NET POSITION	<u>\$ 215,089</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 177,271
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	15,177
Benefits	2,483
Services	3,646
Operation and maintenance of plant:	
Salaries	7,467
Benefits	1,219
Services	5,089
Total support services	35,081
Non-instructional programs:	
Food service operations:	
Salaries	159,510
Benefits	42,379
Services	345
Supplies	182,826
Depreciation	13,444
Total non-instructional programs	398,504
TOTAL OPERATING EXPENSES	433,585
OPERATING LOSS	(256,314)
NON-OPERATING REVENUES:	
State sources	4,228
Federal sources	228,738
Interest income	728
TOTAL NON-OPERATING REVENUES	233,694
Change in net position	(22,620)
Net position beginning of year	237,709
Net position end of year	\$ 215,089

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 177,475
Cash payments to employees for services	(226,683)
Cash payments to suppliers for goods or services	(173,007)
Net cash used in operating activities	<u>(222,215)</u>
Cash flows from non-capital financing activities:	
State grants received	4,228
Federal grants received	212,142
Net cash provided by non-capital financing activities	<u>216,370</u>
Cash flows from investing activities:	
Interest on investments	<u>728</u>
Net decrease in cash and cash equivalents	(5,117)
Cash and cash equivalents at beginning of year	<u>177,360</u>
Cash and cash equivalents at end of year	<u>\$ 172,243</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (256,314)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,596
Depreciation	13,444
Decrease in inventories	2,292
Decrease in accounts receivable	57
Increase in accounts payable	11
Decrease in salaries and benefits payable	(194)
Increase in unearned revenue	147
Increase in other postemployment benefits	1,746
Net cash used in operating activities	<u>\$ (222,215)</u>

During the year ended June 30, 2013, the District received Federal commodities valued at \$16,596.

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
JUNE 30, 2013

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ 35,266
Liabilities	<u>\$ -</u>
Net position	
Restricted for scholarships	<u>\$ 35,266</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2013

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	<u>\$ 219</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u>718</u>
Change in net position	(499)
Net position beginning of year	<u>35,765</u>
Net position end of year	<u><u>\$ 35,266</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position (formerly referred to as 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 Position presents the District's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

Restricted net position results when constraints placed on net position use is either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The District reports the following nonmajor proprietary fund:

The Nutrition Fund is used to account for the food service operations of the District.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, 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 collected within 60 days after year end.

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position 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.

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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

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

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

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	5-12 years

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Assigned - Amounts are not available for appropriation but are set aside for a specific purpose. The assigned balances are for specific purposes at the Middle School and High School.

Unassigned - All amounts not included in other spendable classifications.

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

E. Budgeting and Budgetary Control

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

Note 2. Cash and Pooled Investments

The District's deposits at June 30, 2013 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2013 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$38,012 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Standard & Poor's Financial Services.

Securities are stated at fair value. Securities traded on a national or international exchange are valued the last reported sales price at current exchange rates. At June 30, 2013, the District had investments in U.S. Treasury Securities of \$3,516,351.

Note 3. Transfers

The detail of transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	General	\$ 75,912
General	Management Fund	5,862
Capital Projects: Physical Plant and Equipment Levy	Management Fund	250
Capital Projects: Other Capital Projects	Capital Projects: Statewide Sales, Services and Use Tax	50,461
Debt Service	Capital Projects: Physical Plant and Equipment Levy	111,837
Debt Service Total	Capital Projects: Statewide Sales, Services and Use Tax	165,650
		<u>\$ 409,972</u>

The transfer from the General Fund to the Debt Service Fund was needed for principal and interest payments on the District’s energy loan note indebtedness.

The transfer from the Management Fund to the General Fund was for deductibles paid by the General Fund which could have been paid from the Management Fund.

The transfer from the Management Fund to the Capital Projects: Physical Plant and Equipment Levy Fund was for deductibles paid by the Capital Projects: Physical Plant and Equipment Levy Fund which could have been paid from the Management Fund.

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Capital Projects: Other Capital Projects Fund was needed to close the Capital Projects: Other Capital Projects Fund.

The transfer from the Capital Projects: Physical Plant and Equipment Levy Fund to the Debt Service Fund was needed for principal and interest payments on the District’s capital loan note indebtedness.

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for debt relief on the District’s general obligation bond indebtedness.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 250,550	-	-	250,550
Less accumulated depreciation	158,012	13,444	-	171,456
Business type activities capital assets, net	<u>\$ 92,538</u>	<u>(13,444)</u>	<u>-</u>	<u>79,094</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 120,725	-	-	120,725
Construction in progress	377,348	63,593	440,941	-
Total capital assets not being depreciated	498,073	63,593	440,941	120,725
Capital assets being depreciated:				
Buildings	11,258,499	440,941	-	11,699,440
Land improvements	469,507	109,470	-	578,977
Machinery and equipment	2,512,290	102,608	74,234	2,540,664
Total capital assets being depreciated	14,240,296	-	74,234	14,819,081
Less accumulated depreciation for:				
Buildings	3,111,860	247,693	-	3,359,553
Land improvements	233,666	21,469	-	255,135
Machinery and equipment	2,055,136	167,558	74,234	2,148,460
Total accumulated depreciation	5,400,662	436,720	74,234	5,763,148
Total capital assets being depreciated, net	8,839,634	(436,720)	-	9,055,933
Governmental activities capital assets, net	\$ 9,337,707	(373,127)	440,941	9,176,658

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 59,428
Other	2,684

Support services:

Instructional staff	8,752
Administration	4,900
Operation and maintenance of plant	7,124
Transportation	84,670

167,558

Unallocated depreciation	269,162
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Total governmental activities depreciation expense	\$ 436,720
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Business type activities:

Food service operations	\$ 13,444
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Note 5. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 3,950,000	3,620,000	235,000	7,335,000	245,000
Energy loan notes	543,000	-	62,469	480,531	68,809
Capital loan notes	315,000	-	100,000	215,000	105,000
Compensated absences	37,904	44,336	37,904	44,336	44,336
Termination benefits	326,295	84,500	101,197	309,598	103,285
Net OPEB liability	243,557	134,056	-	377,613	-
Total	\$ 5,415,756	3,882,892	536,570	8,762,078	566,430
Business type activities:					
Net OPEB liability	\$ 4,920	1,746	-	6,666	-

General Obligation Bonds Payable

On August 1, 2012, the District issued \$3,620,000 of general obligation refunding bonds, with interest rates ranging from 0.55% to 2.35%, for a crossover refunding of a portion of the general obligation bonds issued July 1, 2005 with interest rates ranging from 3.60% to 4.20%. The District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Treasury Securities. These securities along with additional cash were placed in an escrow account for the express purpose of paying the \$3,470,000 principal of the refunded general obligation bonds when they become callable on May 1, 2014 and the interest from November 1, 2012 to and including on May 1, 2014 on the refunding bonds. After the principal and interest on all of the outstanding bonds have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances, and liabilities of the escrow account are recorded by the District since the refunded debt is not considered extinguished. The economic gain of this crossover refunding issuance is \$294,647.

Details of the District's June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue Dated July 1, 2005			Crossover Bond Issue Dated August 8, 2012			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2014	4.38 %	\$ 245,000	148,464	0.55 %	-	56,155	\$ 245,000	204,619	449,619
2015	3.60	255,000	137,745	0.55	310,000	56,155	565,000	193,900	758,900
2016	3.70	265,000	128,565	0.65	315,000	54,450	580,000	183,015	763,015
2017	3.80	280,000	118,760	0.85	315,000	52,403	595,000	171,163	766,163
2018	3.88	290,000	108,120	1.10	315,000	49,725	605,000	157,845	762,845
2019-2023	3.95-4.10	1,635,000	359,445	1.35-2.20	1,655,000	179,840	3,290,000	539,285	3,829,285
2024-2025	4.15-4.20	745,000	47,068	2.30-2.35	710,000	24,970	1,455,000	72,038	1,527,038
Total		\$ 3,715,000	1,048,167		\$ 3,620,000	473,698	\$ 7,335,000	1,521,865	8,856,865

Energy Loan Notes Payable

Details of the District's June 30, 2013 energy loan notes indebtedness, which will be paid from the General Fund, are as follows:

Year Ending June 30,	Energy loan notes dated February 1, 2007				
	Interest Rates		Principal	Interest	Total
2014	4.05	% \$	52,000	8,910	60,910
2015	4.05		54,000	6,804	60,804
2016	4.05		56,000	4,617	60,617
2017	4.05		58,000	2,349	60,349
Subtotal			<u>\$ 220,000</u>	<u>22,680</u>	<u>242,680</u>

Year Ending June 30,	Energy loan notes Issue March 1, 2012				
	Interest Rates		Principal	Interest	Total
2014	1.00	% \$	16,809	2,528	19,337
2015	1.00		17,020	2,359	19,379
2016	1.00		17,234	2,188	19,422
2017	1.00		17,450	2,015	19,465
2018	1.00		17,670	1,839	19,509
2019-2023	1.00		91,738	6,487	98,225
2024-2028	1.00		82,610	1,806	84,416
Subtotal			<u>\$ 260,531</u>	<u>19,222</u>	<u>279,753</u>
Total			<u>\$ 480,531</u>	<u>41,902</u>	<u>522,433</u>

Capital Loan Notes Payable

Details of the District's June 30, 2013 capital loan notes indebtedness, which will be paid from the Capital Projects: Physical Plant and Equipment Levy, is as follows:

Year Ending June 30,	Capital loan notes dated April 1, 2009				
	Interest Rates		Principal	Interest	Total
2014	3.75	% \$	105,000	8,337	113,337
2015	4.00		110,000	4,400	114,400
Total			<u>\$ 215,000</u>	<u>12,737</u>	<u>227,737</u>

Termination Benefits Payable

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The retiree may maintain their membership in the group health insurance. Retirees are paid \$500 per month for single health insurance. The employee shall not be on disability leave at the time of retirement. Termination benefits paid during the year ended June 30, 2013, totaled \$101,197. The cost of termination benefit payments expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund. A liability has been recorded in the Statement of Net Position representing the District's commitment to fund non-current termination benefits.

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 5.78% of their annual covered salary and the District is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$482,057, \$428,627, and \$364,259, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health plan which provides medical and prescription drug benefits for employees, retirees, and their spouses. There are 69 active and 13 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark and ISEBA. Retirees under age 69 pay the same premium for the medical/prescription drug benefit as active employees, which result in an implicit rate subsidy and an OPEB liability.

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

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

The following table shows the components of the Districts OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the County's net OPEB obligation:

Annual required contribution	\$ 212,698
Interest on net OPEB obligation	6,212
Adjustment to annual required contribution	(21,450)
Annual OPEB cost	<u>197,460</u>
Contributions made	<u>(61,658)</u>
Increase in net OPEB obligation	135,802
Net OPEB obligation beginning of year	<u>248,477</u>
Net OPEB obligation end of year	<u>\$ 384,279</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, 2013.

For the year ended June 30, 2013, the District contributed \$61,658 to the medical plan.

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, 2013 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 161,193	58.73%	\$ 134,898
2012	174,857	35.04%	248,477
2013	197,460	31.23%	384,279

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$1,441,330, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,441,330. The covered payroll (annual payroll of active employees covered by the plan) was \$4,461,669, and the ratio of the UAAL to covered payroll was 32.30%. As of June 30, 2013 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 event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon national termination studies performed by the Society of Actuaries. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, life, accidental death and dismemberment and long-term disability.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2013 were \$693,594.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

East Marshall 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.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$272,285 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Categorical Funding

The District's ending balances for categorical funding by project as of June 30, 2013 are as follows:

Program	Amount
Home school assistance program	\$ 36,514
Weighted at-risk program	22,680
Dropout and dropout prevention program	4,219
Teacher salary supplement	164
Market factor	4,965
Four-year-old preschool state aid	96,656
Professional development for core curriculum	13,345
Professional development	9,967
Market factor incentives	4,097
Total	<u>\$ 192,607</u>

Note 11. Reconciliation of Governmental Fund Balances to Net Position

Reconciliation of certain governmental fund balances to net position are as follows:

	Invested in Capital Assets	Debt Service	Management Levy	Unassigned/ Unrestricted
Fund balance (Exhibit C)	\$ -	3,524,409	120,392	972,004
Capital assets, net of accumulated depreciation	9,176,658	-	-	-
U.S. Treasury securities on deposit with escrow agent	-	(3,516,351)	-	-
General obligation bond indebtedness	(3,818,649)	-	-	-
Capital loan note indebtedness	(215,000)	-	-	-
Energy loan note indebtedness	(480,531)	-	-	-
Accrued interest payable	-	(8,058)	-	(28,394)
Termination benefits liability	-	-	(120,392)	(189,206)
Compensated absences liability	-	-	-	(44,336)
Net OPEB liability	-	-	-	(377,613)
Income surtax receivable	-	-	-	298,112
Net position (Exhibit A)	<u>\$ 4,662,478</u>	<u>-</u>	<u>-</u>	<u>630,567</u>

REQUIRED SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 6,026,607	177,999	6,204,606	6,048,996	6,048,996	155,610
Intermediate sources	811	-	811	-	-	811
State sources	3,638,736	4,228	3,642,964	3,787,900	3,787,900	(144,936)
Federal sources	167,746	228,738	396,484	380,900	380,900	15,584
Total revenues	9,833,900	410,965	10,244,865	10,217,796	10,217,796	27,069
Expenditures/Expenses:						
Instruction	5,772,544	-	5,772,544	6,010,721	6,010,721	238,177
Support services	2,970,787	35,081	3,005,868	3,484,435	3,484,435	478,567
Non-instructional programs	4,991	398,504	403,495	417,000	417,000	13,505
Other expenditures	1,106,511	-	1,106,511	1,265,441	1,265,441	158,930
Total expenditures/expenses	9,854,833	433,585	10,288,418	11,177,597	11,177,597	889,179
Excess(Deficiency) of revenues over(under) expenditures/expenses	(20,933)	(22,620)	(43,553)	(959,801)	(959,801)	916,248
Other financing sources, net	3,610,337	-	3,610,337	-	-	3,610,337
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	3,589,404	(22,620)	3,566,784	(959,801)	(959,801)	4,526,585
Balance beginning of year	2,082,174	237,709	2,390,708	1,957,614	1,957,614	433,094
Balance end of year	\$ 5,671,578	215,089	5,957,492	997,813	997,813	4,959,679

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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

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

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

EAST MARSHALL 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	\$ -	\$ 1,532,553	1,532,553	0.00%	\$ 4,057,796	37.77%
2011	July 1, 2009	-	1,417,884	1,417,884	0.00%	4,184,344	33.89%
2012	July 1, 2009	-	1,419,309	1,419,309	0.00%	3,473,174	40.86%
2013	July 1, 2012	-	1,441,330	1,441,330	0.00%	4,461,669	32.30%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	Special Revenue					
	Management Levy	Student Activity	Public		Capital Projects	Total
			Education and Recreation Levy	Total Special Revenue		
ASSETS						
Cash and pooled investments	\$ 117,548	110,228	35,443	263,219	565,998	829,217
Receivables:						
Property tax:						
Delinquent	3,520	-	390	3,910	2,889	6,799
Succeeding year	233,760	-	27,814	261,574	206,030	467,604
Due from other governments	19	580	2	601	157,495	158,096
TOTAL ASSETS	\$ 354,847	110,808	63,649	529,304	932,412	1,461,716
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 695	2,560	219	3,474	6,664	10,138
Salaries and benefits payable	-	1,023	-	1,023	-	1,023
Deferred revenue:						
Succeeding year property tax	233,760	-	27,814	261,574	206,030	467,604
Other	-	393	-	393	-	393
Total liabilities	234,455	3,976	28,033	266,464	212,694	479,158
Fund balances:						
Restricted for:						
Management levy	120,392	-	-	120,392	-	120,392
Student activity	-	106,832	-	106,832	-	106,832
Public education and recreation levy	-	-	35,616	35,616	-	35,616
School infrastructure	-	-	-	-	633,169	633,169
Physical plant and equipment	-	-	-	-	86,549	86,549
Total fund balances	120,392	106,832	35,616	262,840	719,718	982,558
TOTAL LIABILITIES AND FUND BALANCES	\$ 354,847	110,808	63,649	529,304	932,412	1,461,716

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 2

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	Special Revenue						
	Manage- ment Levy	Student Activity	Public		Total Special Revenue	Capital Projects	Total
			Education and Recreation Levy	Total			
REVENUES:							
Local sources:							
Local tax	\$ 240,292	-	26,624	266,916	655,919	922,835	
Other	10,509	174,101	124	184,734	74,037	258,771	
State sources	128	-	14	142	101,101	101,243	
TOTAL REVENUES	250,929	174,101	26,762	451,792	831,057	1,282,849	
EXPENDITURES:							
Current:							
Instruction:							
Regular	121,762	-	-	121,762	64,739	186,501	
Other	-	166,066	-	166,066	-	166,066	
Support services:							
Student	914	-	-	914	-	914	
Instructional staff	417	1,469	-	1,886	-	1,886	
Administration	5,469	5,470	-	10,939	1,631	12,570	
Operation and maintenance of plant	58,009	12,110	3,059	73,178	11,314	84,492	
Transportation	24,583	-	-	24,583	21,179	45,762	
Community service operations	-	-	4,126	4,126	-	4,126	
Other expenditures:							
Capital outlay	-	-	16,695	16,695	156,226	172,921	
TOTAL EXPENDITURES	211,154	185,115	23,880	420,149	255,089	675,238	
Excess(Deficiency) of revenues over(under) expenditures	39,775	(11,014)	2,882	31,643	575,968	607,611	
Other financing sources(uses)							
Transfer in	-	-	-	-	50,711	50,711	
Transfer out	(6,112)	-	-	(6,112)	(327,948)	(334,060)	
Total other financing sources(uses)	(6,112)	-	-	(6,112)	(277,237)	(283,349)	
Change in fund balance	33,663	(11,014)	2,882	25,531	298,731	324,262	
Fund balance beginning of year	86,729	117,846	32,734	237,309	420,987	658,296	
Fund balance end of year	\$ 120,392	106,832	35,616	262,840	719,718	982,558	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2013

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 475,690	90,308	565,998
Receivables:			
Property tax:			
Delinquent	-	2,889	2,889
Succeeding year	-	206,030	206,030
Due from other governments	157,479	16	565,998
TOTAL ASSETS	\$ 633,169	299,243	932,412
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	6,664	6,664
Deferred revenue:			
Succeeding year property tax	-	206,030	206,030
Total liabilities	-	212,694	212,694
Fund balances:			
Restricted for:			
School infrastructure	633,169	-	633,169
Physical plant and equipment	-	86,549	86,549
Total fund balances	633,169	86,549	719,718
TOTAL LIABILITIES AND FUND BALANCES	\$ 633,169	299,243	932,412

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Capital Projects			Total
	Statewide Sales, Services and Use Tax	Other Capital Projects	Physical Plant and Equipment Levy	
REVENUES:				
Local sources:				
Local tax	\$ 458,712	-	197,207	655,919
Other	1,339	9,766	62,932	74,037
State sources	100,996	-	105	101,101
TOTAL REVENUES	561,047	9,766	260,244	831,057
EXPENDITURES:				
Current:				
Instruction:				
Regular	63,627	-	1,112	64,739
Support services:				
Administration	976	-	655	1,631
Operation and maintenance of plant		-	11,314	11,314
Transportation	21,179	-	-	21,179
Capital outlay	26,768	63,594	65,864	156,226
TOTAL EXPENDITURES	112,550	63,594	78,945	255,089
Excess(Deficiency) of revenues over/under expenditures	448,497	(53,828)	181,299	575,968
Other financing sources(uses):				
Transfer in	-	50,461	250	50,711
Transfer out	(216,111)	-	(111,837)	(327,948)
Total other financing sources(uses)	(216,111)	50,461	(111,587)	(277,237)
Change in fund balances	232,386	(3,367)	69,712	298,731
Fund balance beginning of year	400,783	3,367	16,837	420,987
Fund balance end of year	\$ 633,169	-	86,549	719,718

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 5

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Drama	\$ 4,752	2,662	3,104	1,654	5,964
HS Vocal	1,400	6,339	6,400	1,095	2,434
Spec MS Vocal	1,205	384	1,309	4	284
HS Band	752	390	3,239	9,068	6,971
Band Fundraising	7,356	14,278	8,383	(13,251)	-
Spec MS Band	868	2,216	4,168	5,454	4,370
MS Band Resale	197	369	433	-	133
Athletics	27,571	5,227	24,359	16,227	24,666
Athletic Uniforms	12,532	-	12,531	3,410	3,411
Spec MS Athletics	9,239	-	4,813	2,673	7,099
Cross Country	-	-	1,051	1,051	-
Golf	-	1,595	3,916	2,321	-
Boys Basketball	213	6,568	3,477	(3,304)	-
Football	-	19,168	9,953	(9,215)	-
Baseball	200	4,405	5,371	836	70
Boys Track	-	-	1,698	1,698	-
Wrestling	-	5,397	4,828	(569)	-
Alumni Basketball Uniforms	804	275	405	3	677
Girls BB	187	6,542	3,111	(3,618)	-
Volleyball	350	6,188	3,097	(3,441)	-
Softball	515	6,833	6,377	(971)	-
Girls Track	-	55	3,834	3,779	-
Interest	-	612	-	(612)	-
Middle School Fine Arts	13,380	-	-	2,300	15,680
MS Yearbook	597	2,079	2,270	8	414
MS Activities	392	379	379	(392)	-
High School Fine Arts	5,135	-	-	25	5,160
Class of 2014	-	13,684	7,261	19	6,442
Class of 2015	52	-	-	1,751	1,803
Class of 2016	3,280	-	-	(3,280)	-
Class of 2017	3,271	-	1,942	(1,329)	-
HS Yearbook	4,683	9,370	11,203	28	2,878
Spec HS Art	1,906	-	-	1,098	3,004
Silk Screening	254	2,489	2,112	498	1,129
Cheerleaders	2,740	3,461	3,736	(487)	1,978
FFA	12,624	7,300	8,584	64	11,404
National Honor Society	955	-	139	4	820
HS Student Council	188	1,212	1,634	275	41
Concession	248	44,624	29,998	(14,874)	-
Total	\$ 117,846	174,101	185,115	-	106,832

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS
JUNE 30, 2013

	Private Purpose Trust - Scholarship		
	Blackburn Scholarship	Dunham Scholarship	Total
Assets			
Cash and pooled investments	\$ 31,767	3,499	35,266
Liabilities	-	-	-
Net position			
Restricted for scholarships	\$ 31,767	3,499	35,266

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2013

	Private Purpose Trust - Scholarship		
	Blackburn Scholarship	Dunham Scholarship	Total
Additions:			
Local sources:			
Interest income	\$ 206	13	219
Deductions:			
Instruction:			
Regular:			
Scholarships awarded	318	400	718
Change in net position	(112)	(387)	(499)
Net position beginning of year	31,879	3,886	35,765
Net position end of year	\$ 31,767	3,499	35,266

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 8

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

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 3,599,167	3,757,789	3,716,260	3,329,046	3,233,021	3,084,414	3,146,783	3,159,955	3,202,645	2,778,213
Tuition	2,015,452	1,774,798	1,524,337	1,372,977	1,287,996	1,276,568	1,249,157	1,084,449	815,148	655,870
Other	411,988	337,388	311,573	289,867	324,444	487,198	492,617	524,229	279,311	295,208
Intermediate sources	811	-	2,937	10,414	-	-	-	-	-	-
State sources	3,638,736	3,971,194	3,898,484	3,517,058	3,821,565	3,846,326	3,448,468	3,581,775	3,159,379	3,052,978
Federal sources	167,746	219,106	406,297	812,903	274,774	252,322	400,479	228,858	272,939	190,579
Total	\$ 9,833,900	10,060,275	9,859,888	9,332,265	8,941,800	8,946,828	8,737,504	8,579,266	7,729,422	6,972,848
Expenditures:										
Current:										
Instruction:										
Regular	\$ 3,546,233	3,467,814	3,318,567	3,254,908	3,154,199	3,263,097	3,070,843	2,738,703	2,575,286	2,704,570
Special	1,219,627	1,166,313	1,148,872	1,166,517	1,246,523	1,106,333	1,034,926	889,705	821,571	946,698
Other	1,006,684	911,550	900,022	922,263	883,985	756,644	789,754	722,381	677,104	608,756
Support services:										
Student	342,793	318,211	307,470	289,971	283,357	280,838	278,505	253,518	250,249	239,395
Instructional staff	293,577	318,954	350,709	323,819	392,755	289,776	269,037	328,213	296,343	256,506
Administration	929,922	911,686	1,018,387	866,715	828,893	826,278	800,010	800,782	779,341	674,193
Operation and maintenance of plant	866,159	909,086	826,917	806,918	853,631	943,058	805,329	944,385	664,386	664,676
Transportation	538,336	636,634	583,384	604,605	475,124	724,232	468,739	468,872	503,504	470,553
Central	-	-	-	-	-	-	-	-	-	1,396
Non-instructional programs:										
Food service	-	-	-	-	2,527	3,892	3,635	2,354	2,354	3,364
Community service	4,991	5,268	4,812	4,861	5,131	5,473	5,738	3,470	10,904	20,289
Capital outlay	172,921	464,338	101,988	596,714	848,284	1,094,240	4,656,475	1,289,281	86,941	156,383
Long-term debt:										
Principal	397,469	374,000	357,000	345,000	244,000	230,000	185,000	190,000	-	-
Interest and fiscal charges	263,836	202,338	210,852	225,948	228,861	232,517	213,226	182,405	-	-
Other expenditures:										
AEA flow-through	272,285	282,484	311,385	308,807	251,378	248,491	231,586	218,952	217,704	221,438
Total	\$ 9,854,833	9,968,676	9,440,365	9,717,046	9,698,648	10,004,869	12,812,803	9,033,021	6,885,687	6,968,217

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Marshall Community School District as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered East Marshall Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Marshall Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of East Marshall Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and a significant deficiency.

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 described in Part I of the accompanying Schedule of Findings as items I-A-13 and I-B-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Marshall 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 which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

East Marshall Community School District's Responses to Findings

East Marshall Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. East Marshall Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 25, 2014
Newton, Iowa

EAST MARSHALL COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

I-A-13 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over the following areas for the District:

- 1) Cash - initiating cash receipt and disbursement transactions and handling and recording cash .
- 2) Receipts - collecting, recording, depositing, journalizing, posting, and reconciling.

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

Response - The District will continue to investigate available alternatives and implement them as soon as possible.

Conclusion - Response accepted.

I-B-13 District Procedures - We noted that the District had entered into a contract with Learfield Levy Foodservice LLC(Learfield) for fundraising, by working events at Iowa State University. The contracts with Learfield were signed by the High School Principal, Mr. Rex Kozak (See comment II-M-13.)

We noted that in the fiscal year 2011 as well as fiscal year 2012 that the contracts were with the East Marshall Junior Class and therefore the East Marshall Community School District. We also noted that not all of the checks were written to the East Marshall District since not all of the events were worked by that organization. Learfield altered the payee throughout the contract period.

The contract for fiscal year 2013 was with the East Marshall Community Foundation, (Foundation) however, the events were not always worked by that organization. We noted that the Junior Class worked some events for the period of September through November 2012 and the checks should have been written to the East Marshall District for the amounts that the Junior Class fundraised. However, the \$6,436.76 check from Learfield was written to the Foundation and deposited into the Foundation's bank account by direction of Mr. Kozak. Mr. Kozak cited that the Junior Class was in need of the funds and rather than wait to have a check reissued, the check was deposited. The Foundation subsequently issued a money order for \$5,000 to the District. Mr. Kozak indicated that the Junior Class wanted to donate the balance of the funds to the Foundation. We were unable to obtain support from the Junior Class indicating that the remaining balance was to be a donation to the Foundation. The District correctly identified that the Junior Class could not make the donation to the Foundation and therefore requested the remainder of the funds be returned to the District. (Iowa

Administrative Rule 98.70(3) outlines inappropriate uses of Student Activity money. This section specifically states as inappropriate, "Payments to any private organization unless a fundraiser was held expressly for that purpose and the purpose of the fundraiser was specifically identified.")

Mr. Kozak appeared to take the position that the District should not have authorization to limit the Junior Class's ability to make the donation to the Foundation. Therefore, he wrote a personal check to the District for the balance of \$1,436.76 so that amount could stay in the Foundation as a donation from him on behalf of the Junior Class.

We determined that the funds earned by the Junior Class have been recorded in the District records, however the process in which this occurred indicates that there is a need for tighter internal controls and oversight. The high school administrators who should be monitoring the processes and the compliance of the Student Activity appear to be unfamiliar with the requirements of basic financial integrity and compliance.

Recommendation - It would appear that additional training is needed. The financial accounting and authorization for allowable purchases as well as receipting procedures should be reviewed by management and instruction given as to the expectations of individuals who are placed in a position of trust with taxpayer money. In addition, staff should be reminded of the Code of Professional Conduct and Ethics as it relates to their specific licensure. Chapter 15.3 (4) which discusses misuse of public funds and property identifies violation of this standard to include items:

- a) Failing to account properly for funds collected that were entrusted to the practitioner in an education context.*
- e) Failing to use time or funds granted for the purpose for which they were intended.*

Response - The District has provided training for the High School Principal and the High School Athletic Director by attendance at "Student Activity Funds Workshop" sponsored by SAI and IASBO, and provided to all staff a "School Business Procedures Handbook." However, we recognize that more training in financial accounting and authorization for allowable purchases and receipting procedures is needed and will be provided to District staff.

Conclusion - Response accepted.

II-C-13 Receipting Procedures - We identified during our audit that the District received checks written to the District for earned fundraising dollars from Learfield Levy Foodservice LLC.(Learfield) (See comment I-B-13); however, these checks should have been written with the East Marshall Booster Club(Boosters) as the payee since that organization had worked those particular events. These checks were returned to Learfield with notification from the District that the payments were in error and the checks should be written to the Boosters as the payee.

We identified that Learfield, who runs the operational concessions at Iowa State University, contracts with organizations that are 501(c)(3) not for profit organizations to work the events. We identified that District staff would routinely change the organizations that Learfield paid based on the group working the event. This would appear that Learfield was adaptable and willing to modify the payments as needed. However, during the contract period, we noted correspondence indicating that the Boosters had lost their 501(c)(3) status and therefore Learfield would not remit the contract fundraised amount to the Boosters. Learfield was instructed to just change the payee from the Boosters to another organization even though the funds rightfully were earned by the Boosters. It appeared that the High School Principal, Mr. Rex Kozak substituted one organization for another to obtain payment without considering the IRS violations that may have occurred as well as potential violation of tax exempt status.

The District should monitor payments received and only deposit revenues that rightfully belong to the District. Since the District High School Principal signed the contract with Learfield(See Comment II-M-13), the District appears to have responsibility in the process and procedures relating to the receipting process. It is not advisable to arbitrarily change the payee based on the tax status of the organization. The tax status as well as the Federal Identification Number is unique to the organization and the organization must follow good accounting practices.

Recommendation - The District's internal controls did identify the checks that rightfully belonged to the Boosters and were returned to Learfield. The District should continue to make certain that individuals who open mail and prepare the initial lists of receipts have adequate training and oversight to ensure that District revenues are receipted in their completeness and deposited intact and in a timely manner. The District should educate employees with regard to proper accounting for fundraising so District personnel are not contributing to the confusion of receipts and collections.

Response - The District will continue to make certain that individuals who open mail and prepare the initial list of receipts have adequate training and oversight. The District will provide additional training to educate employees with regard to proper accounting for fundraising and receipting procedures.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-13 Certified Budget** - District disbursements for the year ended June 30, 2013, did not exceed the amount budgeted.
- II-B-13 Questionable Disbursements** - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13 Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-13 Business Transactions** - No business transactions between the District and District officials or employees were noted.
- II-E-13 Bond Coverage** - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-13 Board Minutes** - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-13 Certified Enrollment** - No variance regarding the certified enrollment certified to the Iowa Department of Education were noted.
- II-H-13 Supplementary Weighting** - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-13 Deposits and Investments** - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

II-J-13 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-13 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-13 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.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. 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, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance		\$	400,783
Revenues:			
Sales tax revenues	\$	458,712	
Other local revenues		1,339	
School infrastructure supplemental amount		100,996	561,047
			<u>961,830</u>
Expenditures:			
School infrastructure construction		25,884	
Equipment		85,781	
Other		885	
Transfers to other funds:			
Debt service fund		165,650	
Other transfers		50,461	328,661
			<u>328,661</u>
Ending Balance		\$	<u>633,169</u>

For the year ended June 30, 2013, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Rate of Levy</u>	<u>Property</u>
	<u>Reduction</u>	<u>Tax</u>
	<u>Per \$1,000</u>	<u>Dollars</u>
	<u>of Taxable</u>	<u>Reduced</u>
	<u>Valuation</u>	
Debt service levy	\$ 0.84000	\$ 165,650

II-M-13 District Contracts - We noted during our audit that the District had entered into contracts with Learfield Levy Foodservice, LLC. for student activity fundraisers for the Junior Class. Those contracts were signed by the High School Principal, Mr. Rex Kozak. Chapter 291.1 of the Code of Iowa requires all contracts entered into by the District to be signed by the Board President.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with 291.1 of the Code of Iowa.

Response - The District will have the Board President sign all contracts in the future.

Conclusion - Response accepted.