

MONTEZUMA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Montezuma Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2004 Election)		
Gary Smith	President	2005
Greg Long	Board Member	2006
Mike Phillips	Board Member	2006
Gina Freeborn	Board Member	2004
James Smothers	Board Member	2004
Board of Education		
(After September 2004 Election)		
Gary Smith	President	2005
Mike Phillips	Vice President	2006
Greg Long	Board Member	2006
Scott Rinehart	Board Member	2007
Pete Ross	Board Member	2007
School Officials		
Billy Cox	Superintendent	2005
Barbara J. Albin	District Secretary/ Treasurer	2005
Randy DeGeest	District Attorney	2005

NOTLE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District, Montezuma, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

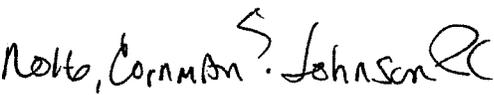
In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2005 on our consideration of Montezuma Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Member American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montezuma Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 12, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montezuma 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, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,356,459 in fiscal year 2004 to \$4,625,425 in fiscal year 2005, while General Fund expenditures increased from \$4,231,307 in fiscal 2004 to \$4,329,943 in fiscal 2005. This resulted in an increase in the District's General Fund balance from a deficit of \$60,670 in fiscal 2004 to a positive \$239,241 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in local tax revenues in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$393,666, and decreased in the business-type activities by \$3,781, respectively.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Montezuma 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 Montezuma 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 Montezuma Community School District acts solely as an agent or custodial for the benefit of those outside of the 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.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

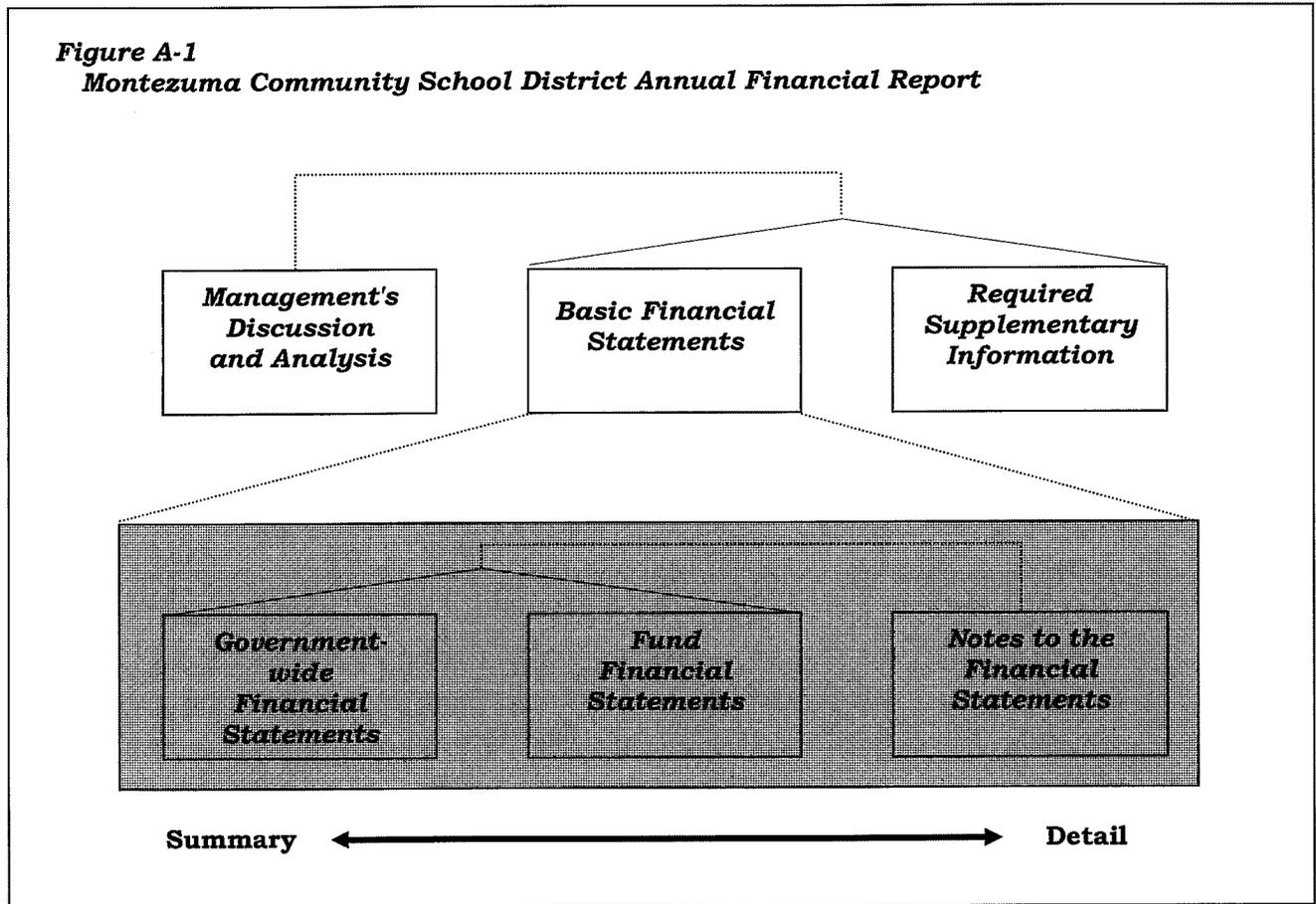


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

The District is responsible for ensuring that 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 District-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Current and other assets	\$ 4,477,384	4,015,804	\$ 4,452	8,039	\$ 4,481,836	4,023,843
Capital assets	948,009	1,014,831	8,028	5,291	956,037	1,020,122	-6.28%
Total assets	<u>5,425,393</u>	<u>5,030,635</u>	<u>12,480</u>	<u>13,330</u>	<u>5,437,873</u>	<u>5,043,965</u>	<u>7.81%</u>
Long-term obligations	120,123	308,249	0	0	120,123	308,249	-61.03%
Other liabilities	3,652,099	3,735,536	6,962	4,031	3,659,061	3,739,567	-2.15%
Total liabilities	<u>3,772,222</u>	<u>4,043,785</u>	<u>6,962</u>	<u>4,031</u>	<u>3,779,184</u>	<u>4,047,816</u>	<u>-6.64%</u>
Net assets:							
Invested in capital assets, net of related debt	948,009	751,842	8,028	5,291	956,037	757,133	26.27%
Restricted	357,393	345,690	0	0	357,393	345,690	3.39%
Unrestricted	347,769	(110,682)	(2,510)	4,008	345,259	(106,674)	423.66%
Total net assets	<u>\$ 1,653,171</u>	<u>986,850</u>	<u>\$ 5,518</u>	<u>9,299</u>	<u>\$ 1,658,689</u>	<u>996,149</u>	<u>66.51%</u>

The District's combined net assets increased by nearly 67% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately 3% compared to prior year.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately 424% over the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 605,034	634,780	\$ 114,951	114,651	719,985	749,431	-3.93%
Operating grants and contributions and restricted interest	477,354	493,633	88,394	78,004	565,748	571,637	-1.03%
General revenues:							
Property tax	2,267,984	1,859,848	0	0	2,267,984	1,859,848	21.94%
Local option sales and service tax	350,620	267,208	0	0	350,620	267,208	0.00%
Unrestricted state grants	1,785,803	1,615,775	0	0	1,785,803	1,615,775	10.52%
Other	28,315	156,993	72	0	28,387	156,993	-81.92%
Total revenues	<u>5,515,110</u>	<u>5,028,237</u>	<u>203,417</u>	<u>192,655</u>	<u>5,718,527</u>	<u>5,220,892</u>	<u>9.53%</u>
Program expenses:							
Governmental activities:							
Instructional	3,357,815	3,272,842	0	0	3,357,815	3,272,842	2.60%
Support services	1,173,464	1,139,240	0	0	1,173,464	1,139,240	3.00%
Non-instructional programs	0	0	210,598	193,614	210,598	193,614	8.77%
Other expenses	314,610	329,653	0	0	314,610	329,653	-4.56%
Total expenses	<u>4,845,889</u>	<u>4,741,735</u>	<u>210,598</u>	<u>193,614</u>	<u>5,056,487</u>	<u>4,935,349</u>	<u>2.45%</u>
Excess(deficiency) of revenues over(under) expenses before other financing uses	669,221	286,502	(7,181)	(959)	662,040	285,543	131.85%
Other financing sources(uses), net	(2,900)	0	3,400	0	500	0	100.00%
Change in net assets	666,321	286,502	(3,781)	(959)	662,540	285,543	132.03%
Net assets beginning of year	986,850	700,348	9,299	10,258	996,149	710,606	40.18%
Net assets end of year	<u>\$ 1,653,171</u>	<u>986,850</u>	<u>\$ 5,518</u>	<u>9,299</u>	<u>1,658,689</u>	<u>996,149</u>	<u>66.51%</u>

Property tax, local option sales and services tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89.6% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the decrease in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining

enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in expenditures than in revenues, allowing for a decrease in the financial position for the year.

Governmental Activities

Revenues for governmental activities were \$5,515,110 and expenses were \$4,845,899.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,357,815	2,435,149
Support services	1,173,464	1,172,663
Other expenses	314,610	155,689
Totals	\$ 4,845,889	3,763,501

- The cost financed by users of the District’s programs was \$605,034.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$477,354.
- The net cost of governmental activities was financed with \$2,267,984 in property tax, \$350,620 in local option sales and services tax, \$1,785,803 in unrestricted state grants and \$23,354 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$203,417 and expenses were \$210,598. The District’s business-type activity is 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 Montezuma 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 \$673,934, above last year’s ending fund balances of \$280,268.

Governmental Fund Highlights

- The District’s General Fund financial position changed from a deficit of \$60,670 to a positive \$239,241. This was due to the controlled spending by the District. The increase in total revenues offset the increase in total expenditures ensuring the increase of the fund balance.

- The District's Capital Projects Fund increased \$46,859, to an ending fund balance of \$227,764. This was the result of an increase in local option sales and service tax during the year.
- The District increased its tax levy which allowed the Management to improve from a deficit \$4,752 to a positive \$23,446. The District was able to decrease the expenditures in this fund which is impressive due to the normal increases in insurance costs.

Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$9,299 at June 30, 2004 to \$5,518 at June 30, 2005, representing a decrease of 40.7%

BUDGETARY HIGHLIGHTS

The District's revenues were \$57,639 more than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving less in state and federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of disbursements paid at year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$956,037, 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) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$579,980.

The original cost of the District's capital assets was \$3,911,536. Governmental funds account for \$3,816,538 with the remainder of \$94,998 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress increased due to projects started towards the end of the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
Land	\$ 52,500	52,500	\$ 0	0	\$ 52,500	52,500	0.00%
Buildings	772,321	811,030	0	0	772,321	811,030	-5.01%
Improvements other than buildings	40,900	38,294	0	0	40,900	38,294	6.37%
Machinery and equipment	67,120	113,007	8,028	5,291	75,148	118,298	-57.42%
Construction in progress	15,168	0	0	0	15,168	0	100.00%
Total	\$ 948,009	1,014,831	\$ 8,028	5,291	\$ 956,037	1,020,122	-6.70%

Long-Term Debt

At June 30, 2005, the District had \$120,123 in other long-term debt outstanding. This represents a decrease of 61% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding leases payable of \$35,422 at June 30, 2005.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$40,956 at June 30, 2005.

Financing was obtained for the track project during FY05 in the amount of \$29,954. The remainder of \$22,254 will be paid out of the Special Revenue, Physical Plant and Equipment Levy Fund in FY 06 and FY07.

There is one year left on the School Equipment Loan Note. This note will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2005	2004	Change
General obligation bonds	\$ 0	145,000	-100.0%
Note payable	21,491	46,174	-53.5%
Early retirement	40,956	45,252	-9.5%
Bus lease	32,422	42,167	-23.1%
Tractor lease	3,000	6,000	-50.0%
Lights lease	0	23,656	-100.0%
Track loan	22,254	0	100.0%
Totals	\$ 120,123	308,249	-61.0%

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:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

- Certified enrollment decreased by 15.1 students in the 2004-05 year, which will affect funding in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbara Albin, District Board Secretary/Treasurer, Montezuma Community School District, 504 North 4th Street, Box 580, Montezuma, Iowa, 50171.

BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,322,130	0	1,322,130
Other	943,931	1,263	945,194
Receivables:			
Property tax:			
Delinquent	26,319	0	26,319
Succeeding year	1,887,481	0	1,887,481
Income surtax	151,553	0	151,553
Accounts	0	0	0
Accrued interest:			
ISCAP(Note 4)	7,585	0	7,585
Interfund	0	0	0
Due from other governments	138,385	0	138,385
Inventories	0	3,189	3,189
Capital assets, net of accumulated depreciation(Note 5)	948,009	8,028	956,037
TOTAL ASSETS	5,425,393	12,480	5,437,873
LIABILITIES			
Accounts payable	21,052	0	21,052
Due to other governments	12,673	0	12,673
Salaries and benefits payable	391,848	6,108	397,956
Accrued interest payable	202	0	202
ISCAP warrants payable(Note 4)	1,317,000	0	1,317,000
ISCAP interest payable(Note 4)	8,332	0	8,332
ISCAP unamortized premium	13,511	0	13,511
Deferred revenue:			
Succeeding year property tax	1,887,481	0	1,887,481
Other	0	854	854
Long-term liabilities(Note 6):			
Portion due within one year:			
Notes payable	21,491	0	21,491
Bus lease payable	10,381	0	10,381
Tractor lease payable	3,000	0	3,000
Track loan payable	15,000	0	15,000
Early retirement payable	9,427	0	9,427
Portion due after one year:			
Bus lease payable	22,041	0	22,041
Track loan payable	7,254	0	7,254
Early retirement payable	31,529	0	31,529
TOTAL LIABILITIES	3,772,222	6,962	3,779,184
NET ASSETS			
Investment in capital assets, net of related debt	948,009	8,028	956,037
Restricted for:			
Phase III	2,139	0	2,139
Talented and gifted	23,116	0	23,116
Salary improvement program	260	0	260
Debt service	61,904	0	61,904
Physical plant and equipment levy	19,351	0	19,351
Capital projects	148,395	0	148,395
Other special revenue purposes	102,228	0	102,228
Unrestricted	347,769	(2,510)	345,259
TOTAL NET ASSETS	\$ 1,653,171	5,518	1,658,689

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,956,636	287,509	291,576
Special instruction	817,580	68,781	26,679
Other instruction	583,599	248,121	0
	<u>3,357,815</u>	<u>604,411</u>	<u>318,255</u>
Support services:			
Student services	59,770	0	0
Instructional staff services	127,590	0	0
Administration services	523,381	0	0
Operation and maintenance of plant services	293,447	0	0
Transportation services	169,276	623	178
	<u>1,173,464</u>	<u>623</u>	<u>178</u>
Other expenditures:			
Facilities acquisitions	28,144	0	0
Long-term debt interest	7,124	0	0
AEA flowthrough	158,921	0	158,921
Depreciation(unallocated)*	120,421	0	0
	<u>314,610</u>	<u>0</u>	<u>158,921</u>
Total governmental activities	4,845,889	605,034	477,354
Business-Type activities:			
Non-instructional programs:			
Nutrition services	210,598	114,951	88,394
Total business-type activities	<u>210,598</u>	<u>114,951</u>	<u>88,394</u>
Total	<u>\$ 5,056,487</u>	<u>719,985</u>	<u>565,748</u>
General Revenues:			
Property tax levied for:			
General purposes			
Capital outlay			
Debt service			
Local option sales and services tax			
Intermediate sources			
Unrestricted state grants			
Unrestricted investment earnings			
Total general revenues			
Change in net assets before other financing sources(uses)			
Other Financing Sources(Uses) :			
Transfer in			
Transfer out			
Total other financing sources(uses)			
Changes in net assets			
Net assets beginning of year			
Net assets end of year			

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,377,551)	0	(1,377,551)
(722,120)	0	(722,120)
(335,478)	0	(335,478)
<u>(2,435,149)</u>	<u>0</u>	<u>(2,435,149)</u>
(59,770)	0	(59,770)
(127,590)	0	(127,590)
(523,381)	0	(523,381)
(293,447)	0	(293,447)
(168,475)	0	(168,475)
<u>(1,172,663)</u>	<u>0</u>	<u>(1,172,663)</u>
(28,144)	0	(28,144)
(7,124)	0	(7,124)
0	0	0
(120,421)	0	(120,421)
<u>(155,689)</u>	<u>0</u>	<u>(155,689)</u>
(3,763,501)	0	(3,763,501)
0	(7,253)	(7,253)
0	(7,253)	(7,253)
<u>(3,763,501)</u>	<u>(7,253)</u>	<u>(3,770,754)</u>
\$ 2,214,843	0	2,214,843
52,547	0	52,547
594	0	594
350,620	0	350,620
4,961	0	4,961
1,785,803	0	1,785,803
23,354	72	23,426
<u>4,432,722</u>	<u>72</u>	<u>4,432,794</u>
669,221	(7,181)	662,040
500	3,400	3,900
(3,400)	0	(3,400)
<u>(2,900)</u>	<u>3,400</u>	<u>500</u>
666,321	(3,781)	662,540
986,850	9,299	996,149
<u>\$ 1,653,171</u>	<u>5,518</u>	<u>1,658,689</u>

MONTEZUMA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 1,322,130	0	1,322,130
Other	560,147	383,784	943,931
Receivables:			
Property tax			
Delinquent	24,258	2,061	26,319
Succeeding year	1,734,162	153,319	1,887,481
Income surtax	151,553	0	151,553
Accrued interest:			
ISCAP(Note 4)	7,585	0	7,585
Due from other governments	83,555	54,830	138,385
TOTAL ASSETS	\$ 3,883,390	593,994	4,477,384
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 15,070	5,982	21,052
Due to other governments	12,673	0	12,673
Salaries and benefits payable	391,848	0	391,848
ISCAP warrants payable(Note 4)	1,317,000	0	1,317,000
ISCAP interest payable(Note 4)	8,332	0	8,332
ISCAP unamortized premium	13,511	0	13,511
Deferred revenue:			
Succeeding year property tax	1,734,162	153,319	1,887,481
Income surtax	151,553	0	151,553
Total liabilities	<u>3,644,149</u>	<u>159,301</u>	<u>3,803,450</u>
Fund balances:			
Reserved for:			
Phase III	2,139	0	2,139
Talented and gifted	23,116	0	23,116
Salary improvement program	260	0	260
Debt service	0	61,904	61,904
Unreserved:			
General	213,726	0	213,726
Capital projects	0	227,764	227,764
Management levy	0	23,446	23,446
Physical plant and equipment levy	0	19,351	19,351
Other special revenue purposes	0	102,228	102,228
Total fund balances	<u>239,241</u>	<u>434,693</u>	<u>673,934</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,883,390	593,994	4,477,384

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total fund balances of governmental funds (page 17)	\$	673,934
 Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		948,009
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		151,553
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(202)
Long-term liabilities, including revenue bonds payable, revenue bans payable, note payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(120,123)</u>
Net assets of governmental activites (page 14)	\$	<u>1,653,171</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,963,303	153,128	2,116,431
Local option sales and service tax	0	350,620	350,620
Tuition	356,290	0	356,290
Other	37,841	234,257	272,098
Intermediate sources	4,961	0	4,961
State sources	2,130,624	127	2,130,751
Federal sources	132,406	0	132,406
Total revenues	<u>4,625,425</u>	<u>738,132</u>	<u>5,363,557</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	1,938,642	640	1,939,282
Special instruction	817,580	0	817,580
Other instruction	361,159	218,261	579,420
	<u>3,117,381</u>	<u>218,901</u>	<u>3,336,282</u>
Support services:			
Student services	60,705	950	61,655
Instructional staff services	127,590	0	127,590
Administration services	458,288	64,453	522,741
Operation and maintenance of plant services	258,692	34,420	293,112
Transportation services	148,366	7,771	156,137
	<u>1,053,641</u>	<u>107,594</u>	<u>1,161,235</u>
Other expenditures:			
Facilities acquisitions	0	127,630	127,630
Long-term debt:			
Principal	0	213,784	213,784
Interest and fiscal charges	0	6,922	6,922
AEA flowthrough	158,921	0	158,921
	<u>158,921</u>	<u>348,336</u>	<u>507,257</u>
Total expenditures	<u>4,329,943</u>	<u>674,831</u>	<u>5,004,774</u>
Excess of revenues over expenditures	295,482	63,301	358,783
Other financing sources(uses):			
Transfer in	0	221,206	221,206
Transfer out	(3,400)	(220,706)	(224,106)
Proceeds from loans	0	29,954	29,954
Compensations for loss of capital assets	5,715	0	5,715
Sale of equipment and materials	2,114	0	2,114
Total other financing sources(uses)	<u>4,429</u>	<u>30,454</u>	<u>34,883</u>
Net change in fund balances	299,911	93,755	393,666
Fund balance beginning of year	(60,670)	340,938	280,268
Fund balance end of year	<u>\$ 239,241</u>	<u>434,693</u>	<u>673,934</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA 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, 2005

Net change in fund balances - total governmental funds (page 19) \$ 393,666

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

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

Depreciation expense	\$ (578,869)	
Capital outlay expenditures	512,047	(66,822)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 151,553

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

Early Retirement 4,296

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 213,784

Proceeds of long-term debt provide current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets. (29,954)

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. (202)

Changes in net assets of governmental activities (page 16) \$ 666,321

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 1,263
Inventories	3,189
Capital assets, net of accumulated depreciation	8,028
Total assets	12,480
 LIABILITIES	
Salaries and benefits payable	6,108
Deferred Revenue:	
Other	854
Total liabilities	6,962
 NET ASSETS	
Invested in capital assets, net of related debt	8,028
Unrestricted	(2,510)
Total net assets	\$ 5,518

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 114,951
TOTAL OPERATING REVENUES	114,951
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	67,551
Benefits	25,998
Services	2,042
Supplies	113,896
Depreciation	1,111
TOTAL OPERATING EXPENSES	210,598
OPERATING LOSS	(95,647)
NON-OPERATING REVENUES:	
State sources	2,752
Federal sources	85,642
Interest income	72
TOTAL NON-OPERATING REVENUES	88,466
Loss before other financing sources	(7,181)
Other financing sources	
Transfer in	3,400
Changes in net assets	(3,781)
Net assets beginning of year	9,299
Net assets end of year	\$ 5,518

SEE NOTES TO FINANCIAL STATEMENTS.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 114,785
Cash received from miscellaneous operating activities	1,020
Cash payments to employees for services	(90,164)
Cash payments to suppliers for goods or services	(106,014)
Net cash used in operating activities	(80,373)
Cash flows from non-capital financing activities:	
State grants received	2,752
Federal grants received	74,785
Net cash provided by non-capital financing activities	77,537
Cash flows from capital and other financing activities:	
Transfer from General Fund	3,400
Purchase of capital assets	(3,848)
Net cash used in capital and other financing activities	(448)
Cash flows from investing activities:	
Interest on investments	72
Net cash provided by investing activities	72
Net decrease in cash and cash equivalents	(3,212)
Cash and cash equivalents at beginning of year	4,475
Cash and cash equivalents at end of year	\$ 1,263
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (95,647)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	10,857
Depreciation	1,111
Decrease in inventories	375
Decrease in accounts payable	(1,308)
Increase in salaries and benefits payable	3,385
Increase in deferred revenue	854
Net cash used in operating activities	\$ (80,373)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 1,263
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2005, the District received Federal commodities valued at \$10,857.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2005

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 47,428	8,428
TOTAL ASSETS	<u>47,428</u>	<u>8,428</u>
LIABILITIES		
Due to other groups	0	8,428
TOTAL LIABILITIES	<u>0</u>	<u>8,428</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 47,428</u>	<u>0</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Interest	<u>\$ 1,193</u>
Deductions:	
Non-instructional programs	<u>1,000</u>
Income before other financing uses	193
Other financing uses:	
Transfer out	<u>(2,000)</u>
Change in net assets	(1,807)
Net assets beginning of year	<u>49,235</u>
Net assets end of year	<u>\$ 47,428</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Montezuma Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Montezuma, Iowa, and the predominate agricultural territory in a portion of Poweshiek County. 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, Montezuma 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 Montezuma 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Poweshiek County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is

custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Land improvements	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings	30 years
Land improvements	15 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is 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 on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District's investments at June 30, 2005, are as follows:

Type	Amortized Cost
Diversified Portfolio	\$ 839,855

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 220,706
Special Revenue, Expendable Trust	Non-expendable Trust	500
Agency	Non-expendable Trust	1,500
	Total	<u>\$ 222,706</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Accrued Warrants Payable</u>	<u>Accrued Interest Payable</u>
2004-05A	6/30/04	6/30/05	\$ 155	0	0	0
2004-05B	1/28/05	1/27/06	559,613	7,422	558,000	8,186
2005-06A	6/28/05	6/28/06	762,362	163	759,000	146
Total			<u>\$ 1,322,130</u>	<u>7,585</u>	<u>1,317,000</u>	<u>8,332</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ 0	290,000	290,000	0
2004-05B	0	200,000	200,000	0
Total	\$ 0	490,000	490,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%
2004-05B	3.500%	3.232%
2005-06A	3.500%	3.903%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,500	0	0	52,500
Construction in progress	0	15,168	0	15,168
Total capital assets not being depreciated	52,500	15,168	0	67,668
Capital assets being depreciated:				
Buildings	2,987,738	76,103	0	3,063,841
Land improvements	78,999	8,215	0	87,214
Machinery and equipment	185,254	412,561	0	597,815
Total capital assets being depreciated	3,251,991	496,879	0	3,748,870
Less accumulated depreciation for:				
Buildings	2,176,708	114,812	0	2,291,520
Land improvements	40,705	5,609	0	46,314
Machinery and equipment	72,247	458,448	0	530,695
Total accumulated depreciation	2,289,660	578,869	0	2,868,529
Total capital assets being depreciated, net	962,331	(81,990)	0	880,341
Governmental activities capital assets, net	\$ 1,014,831	(66,822)	0	948,009

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 17,354	92,553	14,909	94,998
Less accumulated depreciation	12,063	89,816	14,909	86,970
Business-type activities capital assets, net	\$ 5,291	2,737	0	8,028

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 438,270
Other	4,179
Support services:	
Administration	640
Operation and maintenance of plant	2,220
Transportation	13,139
	<u>458,448</u>
Unallocated depreciation	120,421
	<u>\$ 578,869</u>
Business-type activities:	
Food services	\$ 1,111

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 145,000	0	145,000	0	0
Note payable	46,174	0	24,683	21,491	21,491
Early retirement	45,252	0	4,296	40,956	9,427
Bus lease	42,167	0	9,745	32,422	10,381
Tractor lease	6,000	0	3,000	3,000	3,000
Lights lease	23,656	0	23,656	0	0
Track loan	0	29,954	7,700	22,254	15,000
Total	\$ 308,249	29,954	218,080	120,123	59,299

Notes Payable

During the year ended June 30, 2004 the District issued School Equipment Notes to provide funds for the purchase of equipment. These notes are payable from the Capital Projects Fund. Detail of the indebtedness is as follows:

Year ended June 30,	Interest Rate	Principal	Interest
2006	4.75 %	\$ 21,491	467

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age

fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2005, totaled \$4,296. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

Bus and Tractor Lease Payable

During the year ended June 30, 2003 the District entered into a leases for a new school bus and tractor. These leases are payable from the Capital Projects Fund. Detail of the indebtedness is as follows:

<u>Bus lease April 21, 2003</u>			
<u>Year ended June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2006	4.05 %	\$ 10,381	1,313
2007	4.05	10,802	893
2008	4.05	11,239	455
Total		<u>\$ 32,422</u>	<u>2,661</u>

<u>Tractor lease May 15, 2003</u>			
<u>Year ended June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2006	- %	\$ 3,000	0

Track Loan Payable

During the year ended June 30, 2005 the District entered into a loan agreement for the completion of the track project. This lease is payable from the Capital Projects Fund. Detail of the indebtedness is as follows:

<u>Track Loan December 1, 2004</u>			
<u>Year ended June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>
2006	2.75 %	\$ 15,000	463
2007	2.75	7,254	77
Total		<u>\$ 22,254</u>	<u>540</u>

(7) Pension and Retirement Benefits

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

may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$148,542, \$145,508 and \$143,885 respectively, equal to the required contributions for each year.

(8) Risk Management

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

(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 \$158,921 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the other expenditures functional areas exceeded the amount budgeted.

(11) Deficit Net Assets

The School Nutrition Fund had deficit unrestricted net assets of \$2,510 at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 3,018,495	115,877
Intermediate sources	4,961	0
State sources	2,120,669	2,752
Federal sources	134,078	85,642
Total receipts	<u>5,278,203</u>	<u>204,271</u>
Disbursements:		
Instruction	3,330,518	0
Support services	1,163,484	0
Non-instructional programs	0	210,883
Other expenditures	509,957	0
Total disbursements	<u>5,003,959</u>	<u>210,883</u>
Excess of receipts over disbursements	274,244	(6,612)
Other financing sources, net	<u>34,883</u>	<u>3,400</u>
Excess of receipts and other financing sources over disbursements	309,127	(3,212)
Balance beginning of year	<u>634,804</u>	<u>4,475</u>
Balance end of year	<u>\$ 943,931</u>	<u>1,263</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,134,372	3,060,881	3,060,881	73,491
4,961	0	0	4,961
2,123,421	2,151,954	2,151,954	(28,533)
219,720	212,000	212,000	7,720
<u>5,482,474</u>	<u>5,424,835</u>	<u>5,424,835</u>	<u>57,639</u>
3,330,518	3,374,000	3,374,000	43,482
1,163,484	1,418,084	1,418,084	254,600
210,883	223,285	223,285	12,402
509,957	373,946	373,946	(136,011)
<u>5,214,842</u>	<u>5,389,315</u>	<u>5,389,315</u>	<u>174,473</u>
267,632	35,520	35,520	232,112
38,283	0	0	38,283
305,915	35,520	35,520	270,395
639,279	518,903	518,903	120,376
<u>945,194</u>	<u>554,423</u>	<u>554,423</u>	<u>390,771</u>

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 5,278,203	85,354	5,363,557
Expenditures	5,003,959	815	5,004,774
Net	274,244	84,539	358,783
Other financing sources	34,883	0	34,883
Beginning fund balances	634,804	(354,536)	280,268
Ending fund balances	\$ 943,931	(269,997)	673,934

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 204,271	(854)	203,417
Expenditures	210,883	(285)	210,598
Net	(6,612)	(569)	(7,181)
Other financing sources	3,400	0	3,400
Beginning fund balances	4,475	4,824	9,299
Ending fund balances	\$ 1,263	4,255	5,518

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2005, disbursements in the other expenditures programs exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2005

	Special Revenue Funds				
	Manage- ment	Physical Plant & Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue
ASSETS					
Cash and pooled investments	\$ 22,095	18,641	107,710	500	148,946
Receivables:					
Property tax:					
Current year delinquent	1,351	710	0	0	2,061
Succeeding year	100,000	53,319	0	0	153,319
Due from other governments	0	0	0	0	0
TOTAL ASSETS	\$ 123,446	72,670	107,710	500	304,326
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	0	5,982	0	5,982
Deferred revenue:					
Succeeding year property tax	100,000	53,319	0	0	153,319
	100,000	53,319	5,982	0	159,301
Fund equity:					
Fund balances:					
Reserved:					
Debt service	0	0	0	0	0
Unreserved:					
Undesignated	23,446	19,351	101,728	500	145,025
Total fund balances	23,446	19,351	101,728	500	145,025
TOTAL LIABILITIES AND FUND EQUITY	\$ 123,446	72,670	107,710	500	304,326

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 1

<u>Capital</u>	<u>Debt</u>	<u>Total</u>
<u>Projects</u>	<u>Service</u>	<u>Nonmajor</u>
		<u>Governmental</u>
		<u>Funds</u>
172,934	61,904	383,784
0	0	2,061
0	0	153,319
54,830	0	54,830
<u>227,764</u>	<u>61,904</u>	<u>593,994</u>
0	0	5,982
0	0	153,319
<u>0</u>	<u>0</u>	<u>159,301</u>
0	61,904	61,904
<u>227,764</u>	<u>0</u>	<u>372,789</u>
<u>227,764</u>	<u>61,904</u>	<u>434,693</u>
<u>227,764</u>	<u>61,904</u>	<u>593,994</u>

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 OTHER NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds				Total Special Revenue Funds
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	
REVENUES:					
Local sources:					
Local tax	\$ 99,987	52,547	0	0	152,534
Local option sales and service tax	0	0	0	0	0
Other	2,718	230	225,758	950	229,656
State sources	83	44	0	0	127
TOTAL REVENUES	102,788	52,821	225,758	950	382,317
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	640	0	0	0	640
Other instruction	0	0	218,261	0	218,261
Support services:					
Student services	0	0	0	950	950
Administration services	43,453	21,000	0	0	64,453
Operation and maintenance of plant services	22,726	11,694	0	0	34,420
Transportation services	7,771	0	0	0	7,771
Other expenditures:					
Facilities acquisitions	0	11,028	0	0	11,028
Long-term debt:					
Principal	0	0	0	0	0
Interest and fiscal charges	0	0	0	0	0
TOTAL EXPENDITURES	74,590	43,722	218,261	950	337,523
Excess (deficiency) of revenues over (under) expenditures	28,198	9,099	7,497	0	44,794
OTHER FINANCING SOURCES (USES):					
Transfer in	0	0	0	500	500
Transfer out	0	0	0	0	0
Proceeds from loans	0	0	0	0	0
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	500	500
Excess of revenues and other financing sources over expenditures and other financing uses	28,198	9,099	7,497	500	45,294
FUND BALANCES BEGINNING OF YEAR	(4,752)	10,252	94,231	0	99,731
FUND BALANCES END OF YEAR	\$ 23,446	19,351	101,728	500	145,025

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
0	594	153,128
350,620	0	350,620
3,593	1,008	234,257
0	0	127
354,213	1,602	738,132
0	0	640
0	0	218,261
0	0	950
0	0	64,453
0	0	34,420
0	0	7,771
116,602	0	127,630
0	213,784	213,784
0	6,922	6,922
116,602	220,706	674,831
237,611	(219,104)	63,301
0	220,706	221,206
(220,706)	0	(220,706)
29,954	0	29,954
(190,752)	220,706	30,454
46,859	1,602	93,755
180,905	60,302	340,938
227,764	61,904	434,693

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Graduated classes	\$ 444	611	0	1,055
7th grade class	0	10	0	10
Class of 2004	611	0	611	0
Class of 2005	316	1,390	1,644	62
Class of 2006	3,759	12,118	14,224	1,653
Class of 2007	575	2,630	1,735	1,470
Class of 2008	25	65	78	12
Class of 2009	5	15	0	20
5th grade field trips	451	0	56	395
Elementary media center	4,271	6,262	8,934	1,599
Nathan Bass memorial	0	130	0	130
Jr-Sr high birthday club	8	0	8	0
JH hertiage trip	200	0	0	200
Curtain callers	101	9,325	7,909	1,517
Drill team	501	60	0	561
Instrumental music	558	1,320	1,555	323
Vocal music	5,038	17	59	4,996
Band uniforms	3,265	375	0	3,640
Track maintenance	0	5,000	0	5,000
Athletics	18,000	66,069	61,321	22,748
School fitness program	8	2,205	382	1,831
Football	200	2,877	3,076	1
Baseball	997	9,003	9,486	514
Golf team	368	814	750	432
Boys basketball	2,386	4,939	6,200	1,125
Girls BB camp	7,352	5,048	4,240	8,160
Volleyball	213	1,490	1,406	297
Wrestling	2,648	4,228	3,210	3,666
German club	3,941	475	1,230	3,186
Good news program	1,543	1,139	2,168	514
Torch club	201	0	33	168
FFA	10,589	45,939	46,250	10,278
FCCLA	552	4,805	4,730	627
Student pop	1,800	6,078	6,085	1,793
JH student council	995	84	445	634
SH student council	527	166	347	346
Cheerleaders	1,614	4,729	5,438	905
Technology club	194	0	0	194
Spanish club	52	1,992	932	1,112
Special projects	4,994	783	2,094	3,683
Summer recreation	3,497	1,905	2,798	2,604
Publications	4,513	13,832	13,120	5,225
Elementary activities	3,709	6,781	5,509	4,981
Interest	3,210	1,049	198	4,061
Total	\$ 94,231	225,758	218,261	101,728

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2005

	Beginning Balance	Increases	Decreases	Ending Balance
JR. HIGH AUDITORIUM				
Assets:				
Cash and other investments	\$ 0	1,500	0	1,500
Liabilities:				
Due to other groups	\$ 0	1,500	0	1,500
FLOWER FUND				
Assets:				
Cash and other investments	\$ 1,116	530	319	1,327
Liabilities:				
Due to other groups	\$ 1,116	530	319	1,327
COFFEE FUND				
Assets:				
Cash and other investments	\$ 5,207	6,300	5,906	5,601
Liabilities:				
Due to other groups	\$ 5,207	6,300	5,906	5,601
TOTAL				
Cash and other investments	\$ 6,323	8,330	6,225	8,428
Liabilities:				
Due to other groups	\$ 6,323	8,330	6,225	8,428

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,467,051	1,859,848	1,829,992	1,786,606
Tuition	356,290	335,115	337,631	326,929
Other	272,098	723,866	666,983	240,473
Intermediate sources	4,961	0	0	0
State sources	2,130,751	1,984,365	1,954,428	1,885,573
Federal sources	132,406	125,043	246,883	161,597
Total	<u>\$ 5,363,557</u>	<u>5,028,237</u>	<u>5,035,917</u>	<u>4,401,178</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,939,282	1,856,224	2,020,555	1,884,440
Special instruction	817,580	820,977	518,519	651,208
Other instruction	579,420	593,525	749,800	521,487
Support services:				
Student services	61,655	60,648	79,032	106,361
Instructional staff services	127,590	125,909	92,326	111,626
Administration services	522,741	495,998	469,172	499,287
Operation and maintenance of plant services	293,112	340,600	321,200	413,053
Transportation services	156,137	149,656	163,941	128,965
Other expenditures:				
Facilities acquisition	127,630	65,456	21,480	51,389
Long-term debt:				
Principal	213,784	145,000	140,000	130,000
Interest and other charges	6,922	13,278	19,438	25,093
AEA flowthrough	158,921	159,207	158,680	155,050
Total	<u>\$ 5,004,774</u>	<u>4,826,478</u>	<u>4,754,143</u>	<u>4,677,959</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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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 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
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 12, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montezuma Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-05 is a material weakness.

Compliance and Other Matters

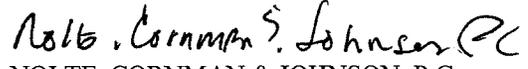
As part of obtaining reasonable assurance about whether Montezuma Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have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

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Montezuma 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.

September 12, 2005

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Basic Financial Statements:

REPORTABLE CONDITIONS:

I-A-05 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. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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 - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-05 Check Signatures - We noted during our audit instances of signatures other than the Board Secretary on District's checks. Per the Code of Iowa, there has to be two signatures on all checks, one being the board president and the other being the board secretary.

Recommendation - The District should review its procedures to ensure that proper signatures are on all checks.

Response - We have already made the necessary changes.

Conclusion - Response accepted.

I-C-05 Student Activity Fund - We noted during our audit instances of accounts that either should be closed, accounted for in another account within the fund or handled in a different fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). More specifically, the elementary media center, Nathan Bass Memorial, 5th grade field trips, track maintenance fund, school fitness program, student pop, graduated class account, CD interest, NOW account and Activity Fund ISJIT account.

Recommendation - To comply with the Department of Education administrative rules (298A.8) the District should do the following: the elementary media center, Nathan Bass Memorial, 5th grade field trips and track maintenance fund should be accounted for in a different fund; the school fitness program and student pop fund should be accounted for in a different account in the Student Activity Fund; the graduated class account, CD interest, NOW account and Activity Fund ISJIT account should be closed and the funds transferred within the Student Activity Fund.

Response - We will look into the nature of these accounts and make the necessary transfers.

Conclusion - Response accepted.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part II: Other Findings Related to Statutory Reporting

II-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the other expenditures functional area.

Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will continue to monitor this in the future.

Conclusion - Response accepted.

II-C-05 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-D-05 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-E-05 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Greg Long, Board Member	Clean sewing machines	\$250
Lindsay Phillips, Daughter of Board Member	Umpire	\$245

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

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the daughter of the Board Member does not appear to represent a conflict of interest.

II-F-05 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-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will comply.

Conclusion - Response accepted.

II-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-05 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-05 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-05 Financial Condition - During our audit we noted that the District had a deficit unrestricted fund balance of \$2,510 in the School Nutrition Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - We will look into alternatives to improve this fund balance.

Conclusion - Response accepted.