

MONTEZUMA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

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**Montezuma Community School District**

**Officials**

**(Before September 2008 Election)**

**Board of Education**

Pete Ross	President	2010
Doug Johnston	Vice President	2010
Vince Johnson	Board Member	2009
Steve Audas	Board Member	2009
Doug Hoksbergen	Board Member	2008

**(After September 2008 Election)**

**Board of Education**

Pete Ross	President	2011 *
Doug Johnston	Vice President	2011 *
Vince Johnson	Board Member	2009
Steve Audas	Board Member	2009
Doug Hoksbergen	Board Member	2011

**School Officials**

Dave VerSteeg	Superintendent	2009
Barbara J. Albin	Board Secretary/ Treasurer	2009
Randy DeGeest	District Attorney	2009

\* Board Term extended per the District's transition for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of 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, 2009, 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, 2009, 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.

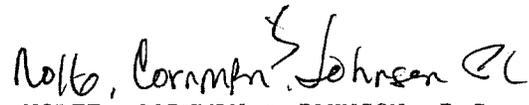
In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2010 on our consideration of Montezuma Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 12 and 35 through 36 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2008 (none of which are presented herein) and expressed an unqualified opinion on those 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 year 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 7, 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.

January 6, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$4,804,417 in fiscal year 2008 to \$4,681,634 in fiscal year 2009, while General Fund expenditures increased from \$4,514,100 in fiscal 2008 to \$4,773,134 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$805,421 in fiscal 2008 to \$713,921 in fiscal 2009.
- The decrease in General Fund revenues was attributable primarily to a decrease in local taxes and state revenues in fiscal 2009. The increase in expenditures was due primarily to an increase in instructional and service functional areas affected by increase in contracts and supplies.
- Overall, the District increased net assets in the governmental activities by \$283,633, and increased in the business-type activities by \$29,148, respectively.
- As of June 30, 2009, the District's solvency ratio was 13.6% as compared to 15.2% for June 30, 2008. Since fiscal year 2005, the District's solvency ratio has risen from 4.6% to 13.6%.

### **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.

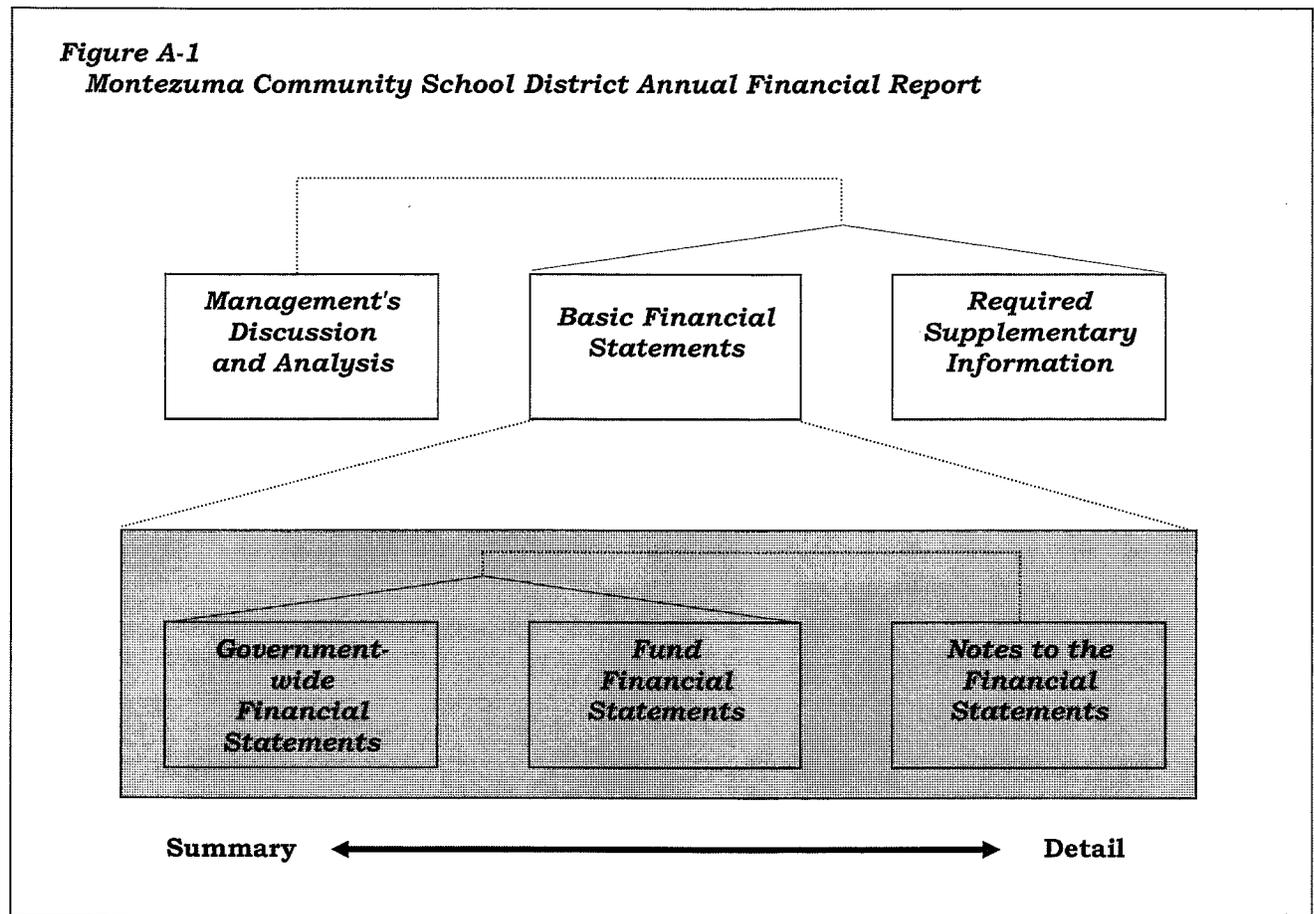


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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 two Enterprise Funds, the School Nutrition Fund and the Preschool 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 total net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 5,167,257	4,568,937	44,819	40,428	5,212,076	4,609,365	13.08%
Capital assets	1,248,524	1,075,778	82,460	65,244	1,330,984	1,141,022	16.65%
Total assets	6,415,781	5,644,715	127,279	105,672	6,543,060	5,750,387	13.78%
Long-term obligations	156,528	237,863	0	0	156,528	237,863	-34.19%
Other liabilities	3,224,561	2,655,793	13,199	20,740	3,237,760	2,676,533	20.97%
Total liabilities	3,381,089	2,893,656	13,199	20,740	3,394,288	2,914,396	16.47%
Net assets:							
Invested in capital assets, net of related debt	1,248,524	1,075,778	82,460	65,244	1,330,984	1,141,022	16.65%
Restricted	944,354	844,918	0	0	944,354	844,918	11.77%
Unrestricted	841,814	830,363	31,620	19,688	873,434	850,051	2.75%
Total net assets	\$ 3,034,692	2,751,059	114,080	84,932	3,148,772	2,835,991	11.03%

The District’s combined net assets increased by 11.03% 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 increased 11.77% compared to prior year.

Unrestricted net assets are 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 by 2.75% from the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 as compared to the year ended 2008.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 590,610	376,303	161,137	160,945	751,747	537,248	39.93%
Operating grants and contributions and restricted interest	714,646	774,585	80,876	88,955	795,522	863,540	-7.88%
General revenues:							
Local tax	2,318,063	2,126,681	0	0	2,318,063	2,126,681	9.00%
Statewide sales and service tax	353,942	359,766	0	0	353,942	359,766	-1.62%
Unrestricted state grants	1,502,744	1,825,128	0	0	1,502,744	1,825,128	-17.66%
Other	83,347	176,672	2,269	617	85,616	177,289	-51.71%
Transfers	(34,999)	(64,329)	34,999	64,329	0	0	0.00%
Total revenues	5,528,353	5,574,806	279,281	314,846	5,807,634	5,889,652	-1.39%
Program expenses:							
Governmental activities:							
Instruction	3,645,243	3,497,481	0	59,738	3,645,243	3,557,219	2.47%
Support services	1,246,087	1,196,757	0	0	1,246,087	1,196,757	4.12%
Non-instructional programs	0	0	250,133	234,729	250,133	234,729	6.56%
Other expenses	353,390	430,773	0	0	353,390	430,773	-17.96%
Total expenses	5,244,720	5,125,011	250,133	294,467	5,494,853	5,419,478	1.39%
Change in net assets	283,633	449,795	29,148	20,379	312,781	470,174	-33.48%
Net assets beginning of year	2,751,059	2,301,264	84,932	64,553	2,835,991	2,365,817	19.87%
Net assets end of year	\$ 3,034,692	2,751,059	114,080	84,932	3,148,772	2,835,991	11.03%

In fiscal 2009, local tax, statewide sales and services tax, and unrestricted state grants account for 75.52% of the revenue from governmental activities while charges for services and operating grants and contributions account for 86.66% of the revenue from business type activities.

The District's total revenues were \$5,807,634 of which \$5,528,353 was for governmental activities and \$279,281 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.39% decrease in revenues and a 1.39% increase in expenses. The increase in expenses was related to increases in instruction and support services expenditures.

**Governmental Activities**

Revenues for governmental activities were \$5,528,353 and expenses were \$5,244,720.

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		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 3,645,243	3,497,481	4.22%	2,526,706	2,523,662	0.12%
Support services	1,246,087	1,196,757	4.12%	1,245,310	1,193,471	4.34%
Other expenses	353,390	430,773	-17.96%	167,448	256,990	-34.84%
Totals	\$ 5,244,720	5,125,011	2.34%	3,939,464	3,974,123	-0.87%

- The cost financed by users of the District’s programs was \$590,610.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$714,646.
- The net cost of governmental activities was financed with \$2,318,063 in property tax, \$353,942 in statewide sales and services tax, \$1,502,744 in unrestricted state grants, \$22,218 in interest income and \$61,129 in other general revenues.

**Business type Activities**

Revenues of the District’s business type activities were \$279,281 and expenses were \$250,133. The District’s business type activity is the School Nutrition. 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 \$1,737,631, above last year’s ending fund balances of \$1,703,016, an increase of 2.03% over the prior year.

**Governmental Fund Highlights**

- The District’s General Fund financial position changed from \$805,421 in Fiscal 2008 to \$713,921 in fiscal 2009. This was due to the increase in expenditures during the year.
- The District’s Capital Projects Fund decreased from \$533,716 in Fiscal 2009, to an ending fund balance of \$474,883. This was due to increased expenditures ensuring the decrease in fund balance for the Capital Projects Fund.

- The District increased its tax levy which allowed the Management Levy Fund to improve from \$137,171 to \$224,186. Fund expenditures decreased by \$86,609 as compared to fiscal 2008, the decrease of \$21,433 in fund revenues resulted in an increase to the fund balance.

### Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$94,082 at June 30, 2008 to \$114,080 at June 30, 2009, representing an increase of 21.26%. The increase was due to the capital contributions made from the Capital Projects Fund during the year.

The Preschool Fund net assets increased from a deficit \$9,150 at June 30, 2008 to a zero balance at June 30, 2009. The General Fund transferred \$9,120 to the Preschool Fund and the fund had \$30 in miscellaneous income to close out the fund.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$368,928 less than budgeted revenues, a variance of 5.97%. The most significant variance resulted from the District receiving less in local and state sources than originally anticipated.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2009, the District had invested \$1,330,984, 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 4 to the financial statements. Depreciation expense for the year was \$165,986.

The original cost of the District's capital assets was \$4,621,199. Governmental funds account for \$4,464,495 with the remainder of \$156,704 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land category. The District's land category increased due to the District purchasing land for future uses.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 168,815	52,500	0	0	168,815	52,500	221.55%
Construction in progress	21,187	0	0	0	21,187	0	100.00%
Buildings	706,294	773,249	0	0	706,294	773,249	-8.66%
Land improvements	68,625	41,125	0	0	68,625	41,125	66.87%
Machinery and equipment	283,603	208,904	82,460	65,244	366,063	274,148	33.53%
Total	\$ 1,248,524	1,075,778	82,460	65,244	1,330,984	1,141,022	16.65%

## Long-Term Debt

At June 30, 2009, the District had \$156,528 in long-term debt outstanding. This represents an decrease of 34.19% 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 early retirement payable from the Special Revenue, Management Levy Fund of \$156,528 at June 30, 2009.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
Early retirement	\$ 156,528	237,863	-34.19%

## 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.

## 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 Dave VerSteeg, Superintendent, Montezuma Community School District, 504 North 4<sup>th</sup> Street, Box 580, Montezuma, Iowa, 50171.

BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	\$ 347,397	0	347,397
Other	2,176,175	31,982	2,208,157
Receivables:			
Property tax:			
Delinquent	27,208	0	27,208
Succeeding year	2,255,968	0	2,255,968
Income surtax	205,065	0	205,065
Accounts	567	0	567
Accrued ISCAP interest	3,213	0	3,213
Due from other governments	151,664	0	151,664
Inventories	0	12,837	12,837
Capital assets, net of accumulated depreciation	1,248,524	82,460	1,330,984
<b>Total Assets</b>	<b>6,415,781</b>	<b>127,279</b>	<b>6,543,060</b>
<b>Liabilities</b>			
Accounts payable	27,600	0	27,600
Due to other governments	99,615	0	99,615
Salaries and benefits payable	432,049	10,989	443,038
Accrued interest payable	4,511	0	4,511
ISCAP warrants payable	343,000	0	343,000
ISCAP unamortized premium	3,742	0	3,742
Deferred revenue:			
Succeeding year property tax	2,255,968	0	2,255,968
Other	58,076	0	58,076
Unearned revenue	0	2,210	2,210
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	39,685	0	39,685
Portion due after one year:			
Early retirement payable	116,843	0	116,843
<b>Total Liabilities</b>	<b>3,381,089</b>	<b>13,199</b>	<b>3,394,288</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,248,524	82,460	1,330,984
Restricted for:			
Categorical funding	77,172	0	77,172
Management levy	67,658	0	67,658
Physical plant and equipment levy	155,664	0	155,664
Capital projects	474,883	0	474,883
Other special revenue purposes	168,977	0	168,977
Unrestricted	841,814	31,620	873,434
<b>Total Net Assets</b>	<b>\$ 3,034,692</b>	<b>114,080</b>	<b>3,148,772</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants,		Govern- mental Activities	Business Type Activities	Total
		Charges for Services	Contributions and Restricted Interest			
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,374,022	294,135	454,602	(1,625,285)	0	(1,625,285)
Special	696,045	55,601	53,276	(587,168)	0	(587,168)
Other	575,176	240,574	20,349	(314,253)	0	(314,253)
	<u>3,645,243</u>	<u>590,310</u>	<u>528,227</u>	<u>(2,526,706)</u>	<u>0</u>	<u>(2,526,706)</u>
Support services:						
Student	12,652	0	0	(12,652)	0	(12,652)
Instructional staff	141,070	0	0	(141,070)	0	(141,070)
Administration	497,666	0	0	(497,666)	0	(497,666)
Operation and maintenance of plant	506,809	0	0	(506,809)	0	(506,809)
Transportation	87,890	300	477	(87,113)	0	(87,113)
	<u>1,246,087</u>	<u>300</u>	<u>477</u>	<u>(1,245,310)</u>	<u>0</u>	<u>(1,245,310)</u>
Other expenditures:						
Facilities acquisitions	102,456	0	10,000	(92,456)	0	(92,456)
AEA flowthrough	175,942	0	175,942	0	0	0
Depreciation(unallocated)*	74,992	0	0	(74,992)	0	(74,992)
	<u>353,390</u>	<u>0</u>	<u>185,942</u>	<u>(167,448)</u>	<u>0</u>	<u>(167,448)</u>
Total governmental activities	5,244,720	590,610	714,646	(3,939,464)	0	(3,939,464)
Business Type activities:						
Non-instructional programs:						
Nutrition services	250,133	161,137	80,876	0	(8,120)	(8,120)
Total business type activities	<u>250,133</u>	<u>161,137</u>	<u>80,876</u>	<u>0</u>	<u>(8,120)</u>	<u>(8,120)</u>
Total	<u>\$ 5,494,853</u>	<u>751,747</u>	<u>795,522</u>	<u>(3,939,464)</u>	<u>(8,120)</u>	<u>(3,947,584)</u>
<b>General Revenues and Transfers:</b>						
General Revenues:						
Local tax for:						
General purposes			\$ 2,255,607	0	2,255,607	
Capital outlay			62,456	0	62,456	
Statewide sales and services tax			353,942	0	353,942	
Unrestricted state grants			1,502,744	0	1,502,744	
Unrestricted investment earnings			22,218	306	22,524	
Other			61,129	1,963	63,092	
Transfers			(34,999)	34,999	0	
Total general revenues and transfers			<u>4,223,097</u>	<u>37,268</u>	<u>4,260,365</u>	
Change in net assets			283,633	29,148	312,781	
Net assets beginning of year			<u>2,751,059</u>	<u>84,932</u>	<u>2,835,991</u>	
Net assets end of year			<u>\$ 3,034,692</u>	<u>114,080</u>	<u>3,148,772</u>	

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	General	Management Levy	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	\$ 347,397	0	0	347,397
Other	1,206,202	221,749	748,224	2,176,175
Receivables:				
Property tax:				
Delinquent	23,968	2,437	803	27,208
Succeeding year	1,885,667	300,000	70,301	2,255,968
Income surtax	205,065	0	0	205,065
Accounts	567	0	0	567
Accrued ISCAP interest	3,213	0	0	3,213
Due from other governments	91,690	0	59,974	151,664
<b>Total Assets</b>	<b>\$ 3,763,769</b>	<b>524,186</b>	<b>879,302</b>	<b>5,167,257</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 18,123	0	9,477	27,600
Due to other governments	99,615	0	0	99,615
Salaries and benefits payable	432,049	0	0	432,049
ISCAP warrants payable	343,000	0	0	343,000
ISCAP interest payable	4,511	0	0	4,511
ISCAP unamortized premium	3,742	0	0	3,742
Deferred revenue:				
Succeeding year property tax	1,885,667	300,000	70,301	2,255,968
Income surtax	205,065	0	0	205,065
Other	58,076	0	0	58,076
Total liabilities	<b>3,049,848</b>	<b>300,000</b>	<b>79,778</b>	<b>3,429,626</b>
Fund balances:				
Reserved for:				
Categorical funding	77,172	0	0	77,172
Unreserved	636,749	224,186	799,524	1,660,459
Total fund balances	<b>713,921</b>	<b>224,186</b>	<b>799,524</b>	<b>1,737,631</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,763,769</b>	<b>524,186</b>	<b>879,302</b>	<b>5,167,257</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2009

<b>Total fund balances of governmental funds (page 15)</b>	\$ 1,737,631
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,248,524
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	205,065
Long-term liabilities, including early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(156,528)</u>
<b>Net assets of governmental activities (page 13)</b>	<u><u>\$ 3,034,692</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009

	General	Management Levy	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 2,072,789	187,881	416,398	2,677,068
Tuition	349,736	0	0	349,736
Other	71,770	9,047	278,984	359,801
State sources	2,043,153	0	0	2,043,153
Federal sources	138,657	0	0	138,657
Total revenues	<u>4,676,105</u>	<u>196,928</u>	<u>695,382</u>	<u>5,568,415</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	2,379,417	46,555	0	2,425,972
Special	696,045	0	0	696,045
Other	345,722	0	227,834	573,556
	<u>3,421,184</u>	<u>46,555</u>	<u>227,834</u>	<u>3,695,573</u>
Support services:				
Student	16,852	0	0	16,852
Instructional staff	141,070	0	0	141,070
Administration	483,305	22,947	0	506,252
Operation and maintenance of plant	322,366	32,030	151,384	505,780
Transportation	178,985	8,381	0	187,366
	<u>1,142,578</u>	<u>63,358</u>	<u>151,384</u>	<u>1,357,320</u>
Other expenditures:				
Facilities acquisitions	0	0	301,374	301,374
AEA flowthrough	175,942	0	0	175,942
	<u>175,942</u>	<u>0</u>	<u>301,374</u>	<u>477,316</u>
Total expenditures	<u>4,739,704</u>	<u>109,913</u>	<u>680,592</u>	<u>5,530,209</u>
Excess(deficiency) of revenues over(under) expenditures	(63,599)	87,015	14,790	38,206
Other financing sources(uses):				
Transfer in	0	0	25,917	25,917
Transfer out	(33,430)	0	(1,607)	(35,037)
Sale of equipment	5,529	0	0	5,529
Total other financing sources(uses)	<u>(27,901)</u>	<u>0</u>	<u>24,310</u>	<u>(3,591)</u>
Net change in fund balances	(91,500)	87,015	39,100	34,615
Fund balance beginning of year	805,421	137,171	760,424	1,703,016
Fund balance end of year	<u>\$ 713,921</u>	<u>224,186</u>	<u>799,524</u>	<u>1,737,631</u>

SEE NOTES TO BASIC 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, 2009

Net change in fund balances - total governmental funds (page 17) \$ 34,615

*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	\$ (156,460)	
Capital outlay expenditures	<u>329,206</u>	172,746

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (5,063)

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	<u>81,335</u>	
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Changes in net assets of governmental activities (page 14) \$ 283,633

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 31,982
Inventories	12,837
Capital assets, net of accumulated depreciation	<u>82,460</u>
<b>Total Assets</b>	<u>127,279</u>
<b>Liabilities</b>	
Salaries and benefits payable	10,989
Unearned revenues	<u>2,210</u>
<b>Total Liabilities</b>	<u>13,199</u>
<b>Net Assets</b>	
Invested in capital assets	82,460
Unrestricted	<u>31,620</u>
<b>Total Net Asset</b>	<u>\$ 114,080</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2009

	School Nutrition	Pre- school	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 161,137	0	161,137
Miscellaneous	1,933	30	1,963
TOTAL OPERATING REVENUES	<u>163,070</u>	<u>30</u>	<u>163,100</u>
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	77,300	0	77,300
Benefits	32,700	0	32,700
Supplies	130,607	0	130,607
Depreciation	9,526	0	9,526
TOTAL OPERATING EXPENSES	<u>250,133</u>	<u>0</u>	<u>250,133</u>
OPERATING INCOME (LOSS)	<u>(87,063)</u>	<u>30</u>	<u>(87,033)</u>
NON-OPERATING REVENUES:			
State sources	2,583	0	2,583
Federal sources	78,293	0	78,293
Interest income	306	0	306
TOTAL NON-OPERATING REVENUES	<u>81,182</u>	<u>0</u>	<u>81,182</u>
Net income(loss) before other financing sources	(5,881)	30	(5,851)
OTHER FINANCING SOURCES:			
Transfer in	0	9,120	9,120
Capital contributions	25,879	0	25,879
Total other financing sources	<u>25,879</u>	<u>9,120</u>	<u>34,999</u>
Changes in net assets	19,998	9,150	29,148
Net assets beginning of year	94,082	(9,150)	84,932
Net assets end of year	<u>\$ 114,080</u>	<u>0</u>	<u>114,080</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2009

	School Nutrition	Pre- school	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 160,638	0	160,638
Cash received from miscellaneous operating activities	1,933	30	1,963
Cash payments to employees for services	(106,815)	0	(106,815)
Cash payments to suppliers for goods or services	(125,594)	0	(125,594)
Net cash provided by(used in) operating activities	(69,838)	30	(69,808)
Cash flows from non-capital financing activities:			
Transfer from the General Fund	0	1,920	1,920
State grants received	2,583	0	2,583
Federal grants received	65,616	0	65,616
Net cash provided by non-capital financing activities	68,199	1,920	70,119
Cash flows from capital and related financing activities:			
Purchase of capital assets	(863)	0	(863)
Cash flows from investing activities:			
Interest on investments	306	0	306
Net increase(decrease) in cash and cash equivalents	(2,196)	1,950	(246)
Cash and cash equivalents at beginning of year	34,178	(1,950)	32,228
Cash and cash equivalents at end of year	\$ 31,982	0	31,982
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:			
Operating (loss)	\$ (87,063)	30	(87,033)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	12,677	0	12,677
Depreciation	9,526	0	9,526
Increase in inventories	(7,664)	0	(7,664)
Increase in salaries and benefits payable	3,185	0	3,185
Decrease in unearned revenue	(499)	0	(499)
Net cash provided by(used in) operating activities	\$ (69,838)	30	(69,808)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 31,982	0	31,982

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2009, the District received Federal commodities valued at \$12,677.

During the year ended June 30, 2009, the Nutrition Fund received capital contributions from the Capital Projects Fund totaling \$25,879.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2009

	Private Purpose Trust	Agency
	<u>Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 45,813	1,572
LIABILITIES		
Due to other groups	0	1,572
NET ASSETS		
Reserved for scholarships	<u>\$ 45,813</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest	\$ 1,524
Contributions	2,000
Total additions	<u>3,524</u>
Deductions:	
Non-instructional:	
Scholarships awarded	<u>8,785</u>
Change in net assets	(5,261)
Net assets beginning of year	<u>51,074</u>
Net assets end of year	<u><u>\$ 45,813</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

(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 funds:

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

The Special Revenue - Management Levy Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District's proprietary funds are the School Nutrition Fund and Preschool Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for the preschool services and/or child care provided by the District.

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 Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

Capital assets 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.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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

Fund Balances - 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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 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, 2009, are as follows:

<u>Type</u>	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 2,053,627</u>

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, 2009 is as follows:

Transfer to	Transfer from	Amount
Preschool Fund	General Fund	\$ 9,120
Special Revenue:		
Physical Plant and Equipment Levy	Debt Service Fund	1,607
Capital Projects	General Fund	24,310
Total		<u>\$ 35,037</u>

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

The General Fund transferred money to Preschool Fund to close the fund.

The Debt Service Fund transferred money to the Special Revenue: Physical Plant and Equipment to close the fund and move the investments to the proper fund.

The General Fund transferred money to the Capital Projects Fund to perform the corrective transfer requested from the prior audit year.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 158,964	26,742	29,002	156,704
Less accumulated depreciation	93,720	9,526	29,002	74,244
Business type activities capital assets, net	<u>\$ 65,244</u>	<u>17,216</u>	<u>0</u>	<u>82,460</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 52,500	116,315	0	168,815
Construction in progress	0	21,187	0	21,187
Total capital assets not being depreciated	52,500	137,502	0	190,002
Capital assets being depreciated:				
Buildings	3,241,986	0	0	3,241,986
Land improvements	103,635	35,537	0	139,172
Machinery and equipment	841,634	156,167	104,466	893,335
Total capital assets being depreciated	4,187,255	191,704	104,466	4,274,493
Less accumulated depreciation for:				
Buildings	2,468,737	66,955	0	2,535,692
Land improvements	62,510	8,037	0	70,547
Machinery and equipment	632,730	81,468	104,466	609,732
Total accumulated depreciation	3,163,977	156,460	104,466	3,215,971
Total capital assets being depreciated, net	1,023,278	35,244	0	1,058,522
Governmental activities capital assets, net	\$ 1,075,778	172,746	0	1,248,524

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 2,300
Other	1,620

Support services:

Administration	8,214
Operation and maintenance of plant	10,797
Transportation	58,537
	<u>81,468</u>
Unallocated depreciation	74,992

Total governmental activities depreciation expense \$ 156,460

Business type activities:

Food services	<u>\$ 9,526</u>
---------------	-----------------

(5) **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. NA is the trustee for the program. A summary of the District's participation in ISCAP is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2008-09B	01/21/09	1/21/10	\$ 347,397	3,213	343,000	4,511

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 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The District did not have any borrowings or repayments from the ISCAP activity in the General Fund for the year ended June 30, 2009.

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
2008-09B	3.500%	3.469%

(6) **Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early retirement	\$ 237,863	0	81,335	156,528	39,685

### 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, 2009, totaled \$81,335. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### **(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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008 and 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$182,688, \$155,799, and \$157,408 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 \$175,942 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Categorical Funding**

The District's ending balances for categorical funding by project as of the year ended June 30, 2009 are as follows:

Project	Amount
Talented and gifted	\$ 41,501
Salary improvement program	2,209
Additional staff development	102
Professional development for model core curriculum	5,215
Professional development	28,079
Market factor incentives	66
Total	<u>\$ 77,172</u>

**(11) Construction Commitment**

The District has entered into various contracts totaling \$450,000 for the construction of a bus barn. As of June 30, 2009, costs of \$21,187 in architect fees had been incurred against the contracts. The balance of \$428,813 remaining at June 30, 2009 will be paid as work on the project progresses. The total cost of the new barn will be added to the District's fixed asset listing upon completion. Part of the architect fees were also for other future projects being considered by the District.

**(12) Other Postemployment Benefits (OPEB)**

GASB Statement Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expenses and related liabilities or assets note disclosures, and if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement Number 45 for the year ending June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual		Actual	Actual	Variance
Revenues:						
Local sources	\$ 3,386,605	163,406	3,550,011	3,737,384	3,737,384	(187,373)
Intermediate sources	0	0	0	20,000	20,000	(20,000)
State sources	2,043,153	2,583	2,045,736	2,161,241	2,161,241	(115,505)
Federal sources	138,657	78,293	216,950	263,000	263,000	(46,050)
Total revenues	5,568,415	244,282	5,812,697	6,181,625	6,181,625	(368,928)
Expenditures/expenses:						
Instruction	3,695,573	0	3,695,573	3,941,000	3,941,000	245,427
Support services	1,357,320	0	1,357,320	1,650,000	1,650,000	292,680
Non-instructional programs	0	250,133	250,133	300,000	300,000	49,867
Other expenditures	477,316	0	477,316	778,729	778,729	301,413
Total expenditures/expenses	5,530,209	250,133	5,780,342	6,669,729	6,669,729	889,387
Excess(deficiency) of revenues over(under) expenditures/expenses	38,206	(5,851)	32,355	(488,104)	(488,104)	520,459
Other financing sources(uses), net	(3,591)	34,999	31,408	0	0	31,408
Excess of revenues and other financing sources(uses) over expenditures/expenses	34,615	29,148	63,763	(488,104)	(488,104)	551,867
Balance beginning of year	1,703,016	84,932	1,787,948	1,798,050	1,798,050	(10,102)
Balance end of year	\$ 1,737,631	114,080	1,851,711	1,309,946	1,309,946	541,765

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2009

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 GAAP basis

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund 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.

OTHER SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2009

	Special Revenue Funds				Total
	Physical		Total	Capital	Other
	Plant &	Equipment			
	Student	Levy	Special	Projects	Governmental
Activity		Revenue		Funds	
<b>Assets</b>					
Cash and pooled investments	\$ 171,972	154,861	326,833	421,391	748,224
Receivables:					
Property tax:					
Current year delinquent		0	803	0	803
Succeeding year		0	70,301	0	70,301
Due from other governments		0	0	59,974	59,974
<b>Total Assets</b>	<b>\$ 171,972</b>	<b>225,965</b>	<b>397,937</b>	<b>481,365</b>	<b>879,302</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 2,995	0	2,995	6,482	9,477
Deferred revenue:					
Succeeding year property tax		0	70,301	0	70,301
	2,995	70,301	73,296	6,482	79,778
Fund balances:					
Unreserved	168,977	155,664	324,641	474,883	799,524
Total fund balances	168,977	155,664	324,641	474,883	799,524
<b>Total Liabilities and Fund Balances</b>	<b>\$ 171,972</b>	<b>225,965</b>	<b>397,937</b>	<b>481,365</b>	<b>879,302</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2009

	Special Revenue Funds					Total
	Physical Plant and Student Activity	Levy	Total Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 0	62,456	62,456	353,942	0	416,398
Other	263,455	1,116	264,571	14,413	0	278,984
TOTAL REVENUES	263,455	63,572	327,027	368,355	0	695,382
EXPENDITURES:						
Current:						
Instruction:						
Other	227,834	0	227,834	0	0	227,834
Support services:						
Transportation	0	0	0	151,384	0	151,384
Other expenditures:						
Facilities acquisitions	0	1,260	1,260	300,114	0	301,374
TOTAL EXPENDITURES	227,834	1,260	229,094	451,498	0	680,592
Excess(deficiency) of revenues over(under) expenditures	35,621	62,312	97,933	(83,143)	0	14,790
OTHER FINANCING SOURCES(USES):						
Transfer in	0	1,607	1,607	24,310	0	25,917
Transfer out	0	0	0	0	(1,607)	(1,607)
TOTAL OTHER FINANCING SOURCES(USES)	0	1,607	1,607	24,310	(1,607)	24,310
NET CHANGE IN FUND BALANCES	35,621	63,919	99,540	(58,833)	(1,607)	39,100
FUND BALANCES BEGINNING OF YEAR	133,356	91,745	225,101	533,716	1,607	760,424
FUND BALANCES END OF YEAR	\$ 168,977	155,664	324,641	474,883	0	799,524

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
JH heritage trip	\$ 480	30,705	0	31,185
Curtain callers	2,859	4,294	2,590	4,563
Winterguard fund	575	4,204	4,573	206
Instrumental music	229	45	0	274
Vocal music	4,566	99	0	4,665
Band uniforms	6,916	813	0	7,729
Athletics	41,155	61,364	62,763	39,756
Football	1,513	8,410	5,347	4,576
District 6 football	500	200	501	199
Baseball	713	8,920	8,383	1,250
Golf team	1,067	865	1,746	186
Boys basketball	3,671	3,220	3,962	2,929
Girls BB camp	1,949	7,163	7,004	2,108
Volleyball	3,706	4,237	5,870	2,073
Girls Softball Fund	0	485	240	245
Wrestling	4,585	4,684	4,547	4,722
German club	1,663	91	400	1,354
Good news program	770	106	876	0
Class of 2012	20	46	0	66
Class of 2011	124	522	300	346
Class of 2010	750	9,740	9,778	712
Class of 2009	1,039	291	733	597
Class of 2008	112	0	112	0
Class of 2007	369	0	369	0
Torch club	6	0	6	0
FFA	32,984	51,169	57,645	26,508
FCCLA	137	1,686	1,823	0
JH student council	981	575	119	1,437
HS student council	2,416	3,070	4,804	682
Cheerleaders	100	4,161	3,129	1,132
School Clay Target Shooting Club	0	15,578	12,165	3,413
Spanish club	473	6,161	1,386	5,248
Summer recreation	(92)	4,945	2,825	2,028
Publications	7,072	18,819	15,444	10,447
Elementary activities	5,392	6,647	4,614	7,425
Now Account Fund Balance	0	140	0	140
Interest	4,556	0	3,780	776
<b>Total</b>	<b>\$ 133,356</b>	<b>263,455</b>	<b>227,834</b>	<b>168,977</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2009

	Private Purpose Trust - Scholarship Fund			
	Remp Scholarship	Ellis Scholarship	AFS Scholarship	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,750	41,064	2,999	45,813
<b>LIABILITIES</b>				
	0	0	0	0
<b>NET ASSETS</b>				
Reserved for scholarships	\$ 1,750	41,064	2,999	45,813

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2009

	Private Purpose Trust - Scholarship Fund			
	Rempp Scholarship	Ellis Scholarship	AFS Scholarship	Total
Additions:				
Local sources:				
Interest	\$ 0	1,156	368	1,524
Contributions	2,000	0	0	2,000
	<u>2,000</u>	<u>1,156</u>	<u>368</u>	<u>3,524</u>
Deductions:				
Non-instructional:				
Scholarships awarded	6,785	2,000	0	8,785
	<u>6,785</u>	<u>2,000</u>	<u>0</u>	<u>8,785</u>
Excess(deficiency) of additions over(under) deductions	(4,785)	(844)	368	(5,261)
OTHER FINANCING SOURCES (USES):				
Transfers in	1,035	0	0	1,035
Transfers out	0	(1,035)	0	(1,035)
Total other financing sources(uses)	<u>1,035</u>	<u>(1,035)</u>	<u>0</u>	<u>0</u>
Changes in net assets	(3,750)	(1,879)	368	(5,261)
Net assets beginning of year	<u>5,500</u>	<u>42,943</u>	<u>2,631</u>	<u>51,074</u>
Net assets end of year	<u>\$ 1,750</u>	<u>41,064</u>	<u>2,999</u>	<u>45,813</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2009

	Beginning Balance	Additions	Deductions	Ending Balance
<b>FLOWER FUND</b>				
Assets:				
Cash and other investments	\$ 1,574	290	292	1,572
Liabilities:				
Due to other groups	\$ 1,574	290	292	1,572
<b>COFFEE FUND</b>				
Assets:				
Cash and other investments	\$ 6,344	152	6,496	0
Liabilities:				
Due to other groups	\$ 6,344	152	6,496	0
<b>TOTAL</b>				
Cash and other investments	\$ 7,918	442	6,788	1,572
Liabilities:				
Due to other groups	\$ 7,918	442	6,788	1,572

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 SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 2,677,068	2,499,083	2,585,499	2,370,528	2,467,051	1,859,848
Tuition	349,736	362,711	378,226	300,238	356,290	335,115
Other	359,801	351,247	451,429	416,211	272,098	723,866
Intermediate	0	0	0	0	4,961	0
State	2,043,153	2,320,267	2,157,497	2,147,777	2,130,751	1,984,365
Federal	138,657	118,463	148,140	143,666	132,406	125,043
Total	<u>\$ 5,568,415</u>	<u>5,651,771</u>	<u>5,720,791</u>	<u>5,378,420</u>	<u>5,363,557</u>	<u>5,028,237</u>
Expenditures:						
Instruction:						
Regular	\$ 2,425,972	2,203,299	2,121,232	2,144,063	1,939,282	1,856,224
Special	696,045	566,180	651,536	756,251	817,580	820,977
Other	573,556	814,922	783,579	573,994	579,420	593,525
Support services:						
Student	16,852	6,546	26,394	31,655	61,655	60,648
Instructional staff	141,070	117,671	134,386	97,900	127,590	125,909
Administration	506,252	512,779	558,228	455,873	522,741	495,998
Operation and maintenance of plant	505,780	359,518	367,355	375,074	293,112	340,600
Transportation	187,366	305,327	199,974	220,386	156,137	149,656
Non-instructional:	0	0	400	0	0	0
Other expenditures:						
Facilities acquisition	301,374	217,052	216,474	243,510	127,630	65,456
Long-term debt:						
Principal	0	11,239	10,802	57,126	213,784	145,000
Interest	0	455	893	2,218	6,922	13,278
AEA flowthrough	175,942	173,783	166,591	162,058	158,921	159,207
Total	<u>\$ 5,530,209</u>	<u>5,288,771</u>	<u>5,237,844</u>	<u>5,120,108</u>	<u>5,004,774</u>	<u>4,826,478</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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

To the Board of Education of 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, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 6, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montezuma Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montezuma Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Montezuma Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Montezuma Community School District's financial statements that is more than inconsequential will not be prevented or detected by Montezuma Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Montezuma Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Montezuma Community School District and other parties to whom 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.

January 6, 2010

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 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 - The District recognizes the inherent control issues to a small business office and will attempt to improve controls where reasonably possible.

Conclusion - Response accepted.

I-B-09 Activity Fund Invoices - During our audit, we noted instances of expenditures being paid which did not always have adequate supporting documentation.

Recommendation - The District should present the bills for payment to the Board of Directors for proper approval in accordance with the District's policy of payment of goods. The District should also review their procedures that are in place to ensure that all bills are supported, approved, and paid from an invoice with a purchase order. The District should adopt processes and procedures to use when an invoice may not be available, such as requiring additional approval or requiring additional support documents other than the invoice or contract.

Response - It is the District's intent to pay for goods and services only when the vendor presents an appropriate invoice or contract supported by a purchase order or authorized by an appropriate administrator.

Conclusion - Response accepted.

CONTROL DEFICIENCIES:

I-C-09 Scholarship Awards - We noted that when scholarships were awarded to the student from the trust fund, the check was being written directly to the student.

Recommendation - A better practice would be for the District to write the check to the individual and the college/university the student is attending, once the student has supplied proof of attendance to the District.

Response - The District writes scholarship checks only after receiving evidence of satisfactory completion of the first semester of college study and continued enrollment for

the subsequent semesters. We feel reasonably comfortable that our current procedures are adequate, but will implement the change as recommended.

Conclusion - Response accepted.

I-D-09 Purchase Approval - We noted during our audit that the Athletic Director was initiating as well as approving his own purchase orders and subsequent invoices for payment. These were submitted to the Board for approval and payment.

Recommendation - Although, Districts are not required to a purchase order system, the benefits to financial management make the system, desirable. The District's current purchase order system should be reviewed and the necessary changes made so that all disbursements are approved by the appropriate administrator, before the ordering of the supplies takes place, not by the same person who initiates the purchase order.

Response - It is the District's intent that a purchase order system should be used for activity purchases just as it is for general education purchases. In most cases, the purchase order is completed by the coach or activity sponsor, with approval being given by the Activities Director, which provides the recommended oversight. The District has historically allowed the Activities Director to approve his own purchases. This practice has been changed so that the purchase orders of the Activities Director must be signed by the appropriate principal and/or the superintendent.

Conclusion - Response accepted.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009 did not exceed the certified amounts in the functional areas.
- II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-09 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Boyd De Jong, Technology Director Owns Cultured Images	Purchases services	\$510

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the owners of businesses do not appear to represent a conflict of interest.

- II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-09 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 2 was over stated by 3.0 students.  
  
Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.  
  
Response - The District will work with the Department of Education and the Department of Management as recommended to resolve this matter.  
  
Conclusion - Response accepted.
- II-H-09 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-I-09 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-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-K-09 Statewide Sales and Service Tax – During our audit, there was no instances of non-compliance noted with the use of the statewide sales and services tax revenue provisions Chapter 423F.3 of the Code of Iowa.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District’s financial activity and other required information for the statewide sales services tax are as follows:

Beginning Balance		\$	0
Statewide sales and services tax revenue			<u>353,942</u>
Expenditures/transfers out:			
School infrastructures:			
Land	\$	116,315	
Buildings		87,569	
Equipment		<u>150,058</u>	<u>353,942</u>
Ending Balance		\$	<u>0</u>

II-L-09 Student Activity Fund – In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District’s educational program. The District received target donations to be used for instructional supplies; these would be more appropriately handled in the General Fund. In addition, we noted scholarships paid from club accounts; these would be more appropriately handled in the Private Purpose Trust Fund.

Recommendation - The District should handle target donations in the General Fund. The District should handle scholarships in the Private Purpose Trust Fund.

Response - Target Stores rebates and other similar programs will be handled through the General Fund as recommended.

The German Club scholarship account will be moved from the Student Activity Fund to the Private Purpose Trust Fund as recommended. As the District discontinues German as a foreign language; these scholarships will be terminated.

The District will account for FFA scholarships from the Private Purpose Trust Fund as recommended, and then reimburses the Private Purpose Trust Fund from the Student Activity Fund FFA account for the amount expended.

Conclusion -Response accepted.

II-M-09 Payroll Authorization - We noted during our audit, the District does not have written authorization to mail employee's payroll checks. Chapter 91A.3 of the Code of Iowa requires that an employer have a written request from an employee before wages can be sent to an employee by mail.

Recommendation - The District should obtain written authorization from each employee who desires to receive a payroll check by mail.

Response - Virtually, all District payroll is paid through direct deposit. The District will secure the required authorization from the employees who receive their check by the United States Mail.

Conclusion -Response accepted.