

MADRID COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

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Madrid Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 Election)		
Terry Ostendorf	President	2011
Emily Schieltz	Vice-President	2011
Linda Ahrens	Board Member	2009
Lou Galetich	Board Member	2009
Marvin Ostrander	Board Member	2011

**Board of Education
(After September 2009 Election)**

Emily Schieltz	President	2011
Linda Ahrens	Vice-President	2013
Katie Baumgarn	Board Member	2013
Marvin Ostrander	Board Member	2011
Terry Ostendorf	Board Member	2011

School Officials

Brian Horn	Superintendent	2010
Sandy Johnson	Business Manager	2010
Drew Bracken	Attorney	2010



NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Madrid Community School District, Madrid Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Madrid Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 24, 2011 on our consideration of Madrid Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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 Madrid Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

February 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Madrid Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,247,757 in fiscal 2009 to \$5,230,763 in fiscal 2010, while General Fund expenditures increased from \$5,030,174 in fiscal 2009 to \$5,391,292 in fiscal 2010. This resulted in a decrease of the District's General Fund balance from \$412,889 in fiscal 2009 to a balance of \$252,360 in fiscal 2010, a 38.88% decrease over the prior year.
- The decrease in General Fund revenues was attributable to a reduction in state sources of revenue. The increase in expenditures was due in part to increases in regular and other instruction expenditures.
- The District completed two projects with the use of statewide sales, services and use tax revenue during the 2009-2010 school year – the installation of football field lights and a new transportation facility.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Madrid Community School District as a whole and present an overall view of the District's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

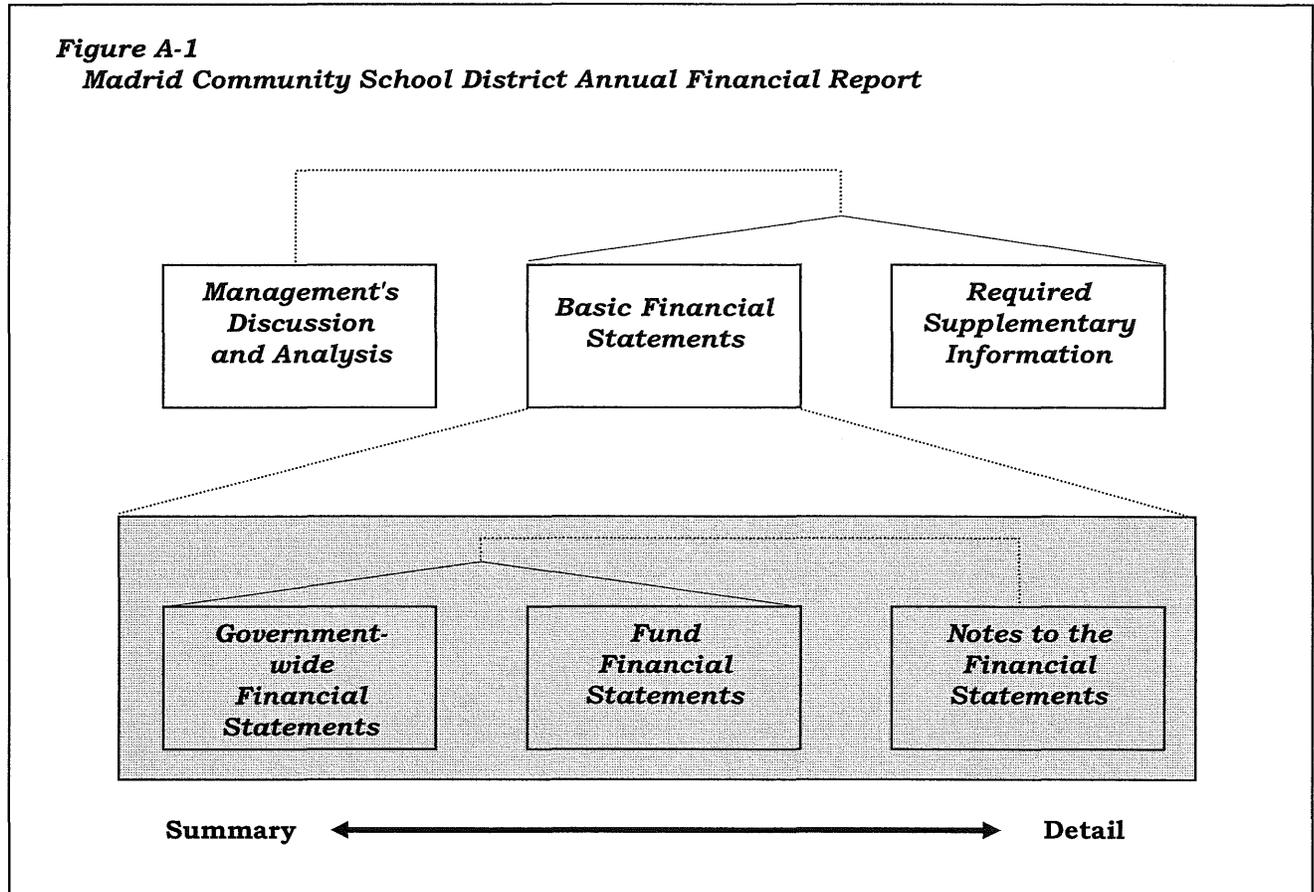


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
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
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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 2,797,061	3,483,101	68,490	44,575	2,865,551	3,527,676	-18.77%
Capital assets	4,489,437	4,121,451	11,505	13,637	4,500,942	4,135,088	8.85%
Total assets	7,286,498	7,604,552	79,995	58,212	7,366,493	7,662,764	-3.87%
Long-term obligations	1,861,831	1,680,730	5,206	-	1,867,037	1,680,730	11.08%
Other liabilities	1,816,882	2,569,417	2,917	2,621	1,819,799	2,572,038	-29.25%
Total liabilities	3,678,713	4,250,147	8,123	2,621	3,686,836	4,252,768	-13.31%
Net assets:							
Invested in capital assets, net of related debt	3,124,958	2,841,451	11,505	13,637	3,136,463	2,855,088	9.86%
Restricted	506,480	236,864	-	-	506,480	236,864	113.83%
Unrestricted	(23,653)	276,090	60,367	41,954	36,714	318,044	-88.46%
Total net assets	\$ 3,607,785	3,354,405	71,872	55,591	3,679,657	3,409,996	7.91%

The District's combined net assets increased by 7.91%, or \$269,661, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of 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 \$269,616, or 113.83% over the prior year.

Unrestricted net assets – are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$281,330, or 88.46%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to June 30, 2009.

	Figure A-4 Changes of Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 415,803	427,107	190,596	212,586	606,399	639,693	-5.20%
Operating grants, contributions and restricted interest	1,132,042	803,721	111,998	90,251	1,244,040	893,972	39.16%
Capital grants, contributions, and restricted interest	37,706	50	-	-	37,706	50	75312.00%
General revenues:							
Local tax	1,766,364	1,734,637	-	-	1,766,364	1,734,637	1.83%
Statewide sales, services and use tax	365,865	374,681	-	-	365,865	374,681	-2.35%
Unrestricted state grants	2,402,459	2,763,331	-	-	2,402,459	2,763,331	-13.06%
Other	24,990	63,198	6,939	27	31,929	63,225	-49.50%
Transfers	(81,726)	(78,578)	81,726	78,578	-	-	-100.00%
Total revenues	<u>6,063,503</u>	<u>6,088,147</u>	<u>391,259</u>	<u>381,442</u>	<u>6,454,762</u>	<u>6,469,589</u>	<u>-0.23%</u>
Program expenses:							
Governmental activities:							
Instructional	3,928,416	3,788,448	-	-	3,928,416	3,788,448	3.69%
Support services	1,540,294	1,382,432	-	-	1,540,294	1,382,432	11.42%
Non-instructional programs	9,373	6,638	374,978	365,362	384,351	372,000	3.32%
Other expenses	332,040	469,938	-	-	332,040	469,938	-29.34%
Total expenses	<u>5,810,123</u>	<u>5,647,456</u>	<u>374,978</u>	<u>365,362</u>	<u>6,185,101</u>	<u>6,012,818</u>	<u>2.87%</u>
Changes in net assets	253,380	440,691	16,281	16,080	269,661	456,771	-40.96%
Beginning net assets	<u>3,354,405</u>	<u>2,913,714</u>	<u>55,591</u>	<u>39,511</u>	<u>3,409,996</u>	<u>2,953,225</u>	<u>15.47%</u>
Ending net assets	<u>\$ 3,607,785</u>	<u>3,354,405</u>	<u>71,872</u>	<u>55,591</u>	<u>3,679,657</u>	<u>3,409,996</u>	<u>7.91%</u>

In fiscal 2010, local tax and unrestricted state grants account for 68.75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 77.34% of the revenue from business type activities.

The District's total revenues were approximately \$6.45 million, of which approximately \$6.06 million was for governmental activities and approximately \$.39 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.23% decrease in revenues and a 2.87% increase in expenses. The increase in expenses related in part to increases in regular and other instruction functions.

Governmental Activities

Revenues for governmental activities were \$6,063,507 and expenses were \$5,810,123. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses for the year ended June 30, 2010 compared to the year ended June 30, 2009.

	Figure A-5 Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 3,928,416	3,788,448	3.69%	2,575,868	2,766,092	-6.88%
Support services	1,540,294	1,382,432	11.42%	1,538,051	1,381,647	11.32%
Non-instructional programs	9,373	6,638	41.20%	9,373	6,638	41.20%
Other expenses	332,040	469,938	-29.34%	101,280	262,201	-61.37%
Totals	<u>\$ 5,810,123</u>	<u>5,647,456</u>	<u>2.88%</u>	<u>4,224,572</u>	<u>4,416,578</u>	<u>-4.35%</u>

- The cost financed by users of the District's programs was \$415,803.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,169,748.
- The net cost of governmental activities was financed with \$1,766,364 in local tax, \$365,865 in statewide sales, services and use tax, \$2,402,459 in unrestricted state grants, \$8,051 in interest income, and \$16,939 in other general revenue.

Business Type Activities

Revenues of the District's business type activities were \$391,259 and expenses were \$374,978. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$806,918, above last year's ending fund balances of a \$739,573. The primary reason for the increase in combined fund balances in fiscal 2010 is due to increase in the Capital Projects Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. The District's General Fund decreased \$160,529. Decreases in state sources during the year were largely responsible for the reduction in revenues.
- The Capital Projects Fund balance increased from \$38,767 in fiscal 2009 to \$224,730 in fiscal 2010.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$55,591 at June 30, 2009 to \$71,872 at June 30, 2010, representing an increase of 29.29%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,043,812 less than budgeted revenues, a variance of 13.93%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$4,500,942, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 8.85% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$51,314.

The original cost of the District's capital assets was \$8,855,753. Governmental funds account for \$8,740,378 with the remainder of \$115,375 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$20,602 at June 30, 2009, compared to \$266,765, reported at June 30, 2010.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 112,126	112,126	-	-	112,126	112,126	0.00%
Construction in progress	-	300,686	-	-	-	300,686	-100.00%
Buildings	3,928,762	3,594,775	-	-	3,928,762	3,594,775	9.29%
Land improvements	266,765	20,602	-	-	266,765	20,602	1194.85%
Machinery and equipment	181,784	93,262	11,505	13,637	193,289	106,899	80.81%
Total	\$ 4,489,437	4,121,451	11,505	13,637	4,500,942	4,135,088	8.85%

Long-Term Debt

At June 30, 2010, the District had \$1,867,037 in long-term debt outstanding. This represents an increase of 11.08% 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 outstanding general obligation bonds payable of \$1,170,000 at June 30, 2010.

The District had outstanding leases payable of \$194,479 at June 30, 2010.

The District had outstanding early retirement payable of \$409,992 at June 30, 2010.

The District had outstanding compensated absences at June 30, 2010 of \$10,678.

The District booked its initial year of OPEB liability during the year ended June 30, 2010 which totaled \$81,888.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 1,170,000	1,280,000	-8.59%
Leases payable	194,479	-	100.00%
Compensated absences	10,678	14,764	-27.68%
Early Retirement	409,992	385,966	6.22%
Net OPEB liability	81,888	-	100.00%
Totals	<u>\$ 1,867,037</u>	<u>1,680,730</u>	<u>11.08%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District is collecting statewide sales tax in Boone, Dallas & Polk counties within the District's boundaries. One-half of Boone County sales taxes are used to reduce the tax asking in the Debt Service Fund.
- The FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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



BASIC FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 693,205	45,724	738,929
Receivables:			
Property tax:			
Delinquent	23,591	-	23,591
Succeeding year	1,667,670	-	1,667,670
Income surtax	189,153	-	189,153
Accounts	2,552	-	2,552
Due from other governments	220,890	-	220,890
Inventories	-	22,766	22,766
Capital assets, net of accumulated depreciation	4,489,437	11,505	4,500,942
Total assets	7,286,498	79,995	7,366,493
Liabilities			
Accounts payable	133,320	-	133,320
Accrued interest payable	15,892	-	15,892
Deferred revenue:			
Succeeding year property tax	1,667,670	-	1,667,670
Unearned revenue	-	2,917	2,917
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	115,000	-	115,000
Leases payable	61,460	-	61,460
Compensated absences	10,678	-	10,678
Early retirement payable	158,529	-	158,529
Portion due after one year:			
General obligation bonds payable	1,055,000	-	1,055,000
Leases payable	133,019	-	133,019
Early retirement payable	251,463	-	251,463
Net OPEB liability	76,682	5,206	81,888
Total liabilities	3,678,713	8,123	3,686,836
Net Assets			
Invested in capital assets, net of related debt	3,124,958	11,505	3,136,463
Restricted for:			
Categorical funding	74,817	-	74,817
Debt service	26,399	-	26,399
Capital projects	224,730	-	224,730
Physical plant and equipment levy	141,988	-	141,988
Other special revenue purposes	38,546	-	38,546
Unrestricted	(23,653)	60,367	36,714
Total net assets	\$ 3,607,785	71,872	3,679,657

MADRID COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
		for Services	Interest	Interest			
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 2,717,209	281,640	750,029	-	(1,685,540)	-	(1,685,540)
Special	616,322	-	102,537	-	(513,785)	-	(513,785)
Other	594,885	134,163	46,523	37,656	(376,543)	-	(376,543)
	<u>3,928,416</u>	<u>415,803</u>	<u>899,089</u>	<u>37,656</u>	<u>(2,575,868)</u>	<u>-</u>	<u>(2,575,868)</u>
Support services:							
Student	130,996	-	-	-	(130,996)	-	(130,996)
Instructional staff	184,976	-	-	-	(184,976)	-	(184,976)
Administration	554,755	-	-	-	(554,755)	-	(554,755)
Operation and maintenance of plant	486,907	-	-	50	(486,857)	-	(486,857)
Transportation	182,660	-	2,193	-	(180,467)	-	(180,467)
	<u>1,540,294</u>	<u>-</u>	<u>2,193</u>	<u>50</u>	<u>(1,538,051)</u>	<u>-</u>	<u>(1,538,051)</u>
Non-instructional programs:							
Food service operations	9,373	-	-	-	(9,373)	-	(9,373)
Other expenditures:							
Facilities and acquisitions	41,136	-	-	-	(41,136)	-	(41,136)
Long-term debt interest	48,609	-	-	-	(48,609)	-	(48,609)
AEA flowthrough	230,760	-	230,760	-	-	-	-
Depreciation(unallocated)*	11,535	-	-	-	(11,535)	-	(11,535)
	<u>332,040</u>	<u>-</u>	<u>230,760</u>	<u>-</u>	<u>(101,280)</u>	<u>-</u>	<u>(101,280)</u>
Total governmental activities	5,810,123	415,803	1,132,042	37,706	(4,224,572)	-	(4,224,572)
Business Type activities:							
Non-instructional programs:							
Nutrition services	374,978	190,596	111,998	-	-	(72,384)	(72,384)
Total business type activities	<u>374,978</u>	<u>190,596</u>	<u>111,998</u>	<u>-</u>	<u>-</u>	<u>(72,384)</u>	<u>(72,384)</u>
Total	\$ 6,185,101	606,399	1,244,040	37,706	(4,224,572)	(72,384)	(4,296,956)
General Revenues and Transfers:							
General revenue:							
Local tax for:							
General purposes					\$ 1,566,065	-	1,566,065
Debt Service					75,693	-	75,693
Capital outlay					124,606	-	124,606
Statewide sales, services and use tax					365,865	-	365,865
Unrestricted state grants					2,402,459	-	2,402,459
Unrestricted investment earnings					8,051	26	8,077
Other general revenues					16,939	6,913	23,852
Transfers					(81,726)	81,726	-
Total general revenues and transfers					<u>4,477,952</u>	<u>88,665</u>	<u>4,566,617</u>
Changes in net assets					253,380	16,281	269,661
Net assets beginning of year					3,354,405	55,591	3,409,996
Net assets end of year					\$ 3,607,785	71,872	3,679,657

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

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Management	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$ 249,775	120,568	140,083	182,779	693,205
Receivables:					
Property tax:					
Delinquent	18,333	2,270	1,859	1,129	23,591
Succeeding year	1,243,041	240,000	131,329	53,300	1,667,670
Income surtax	189,153	-	-	-	189,153
Accounts	2,552	-	-	-	2,552
Due from other governments	115,020	57	46	105,767	220,890
Total assets	\$ 1,817,874	362,895	273,317	342,975	2,797,061
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 133,320	-	-	-	133,320
Deferred revenue:					
Succeeding year property tax	1,243,041	240,000	131,329	53,300	1,667,670
Income surtax	189,153	-	-	-	189,153
Total liabilities	1,565,514	240,000	131,329	53,300	1,990,143
Fund balances:					
Reserved for:					
Categorical funding	74,817	-	-	-	74,817
Debt service	-	-	-	26,399	26,399
Unreserved fund balance	177,543	122,895	141,988	263,276	705,702
Total fund balances	252,360	122,895	141,988	289,675	806,918
Total liabilities and fund balances	\$ 1,817,874	362,895	273,317	342,975	2,797,061

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20)	\$	806,918
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		4,489,437
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		189,153
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(15,892)
Long-term liabilities, including general obligation bonds, leases payable, early retirement, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(1,861,831)</u>
Net assets of governmental activities (page 18)	\$	<u>3,607,785</u>

MADRID COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Management	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 1,409,457	151,261	124,606	441,558	2,126,882
Tuition	240,222	-	-	-	240,222
Other	56,083	9,841	82	181,721	247,727
State sources	3,024,596	-	-	-	3,024,596
Federal sources	500,405	-	50	-	500,455
Total revenues	5,230,763	161,102	124,738	623,279	6,139,882
Expenditures:					
Current:					
Instruction:					
Regular	2,581,291	106,566	-	-	2,687,857
Special	608,764	-	-	-	608,764
Other	442,949	-	-	149,155	592,104
	3,633,004	106,566	-	149,155	3,888,725
Support services:					
Student	129,294	-	-	-	129,294
Instructional staff	181,813	-	-	-	181,813
Administration	553,073	-	-	-	553,073
Operation and maintenance of plant	435,260	28,426	-	-	463,686
Transportation	146,362	16,507	81,150	-	244,019
	1,445,802	44,933	81,150	-	1,571,885
Non-instructional programs:					
Food service operations	-	9,373	-	-	9,373
Other expenditures:					
Facilities acquisitions	-	-	-	332,135	332,135
Long-term debt:					
Principal	-	-	-	110,000	110,000
Interest and fiscal charges	-	-	-	42,412	42,412
AEA flowthrough	230,760	-	-	-	230,760
	230,760	-	-	484,547	715,307
Total expenditures	5,309,566	160,872	81,150	633,702	6,185,290
Excess(deficiency) of revenues over(under) expenditures	(78,803)	230	43,588	(10,423)	(45,408)
Other financing sources(uses):					
Lease proceeds	-	-	-	194,479	194,479
Transfers in	-	-	-	80,000	80,000
Transfers out	(81,726)	-	-	(80,000)	(161,726)
Total other financing sources(uses)	(81,726)	-	-	194,479	112,753
Net change in fund balances	(160,529)	230	43,588	184,056	67,345
Fund balances beginning of year	412,889	122,665	98,400	105,619	739,573
Fund balances end of year	\$ 252,360	122,895	141,988	289,675	806,918

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22)	\$	67,345
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are 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:		
Capital outlays	\$ 414,987	
Depreciation expense	<u>(47,001)</u>	367,986
 Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		5,347
 Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		
Issued	(194,479)	
Repaid	<u>110,000</u>	(84,479)
 Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		(6,197)
 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	\$ (24,026)	
Compensated absences	4,086	
Other postemployment benefits	<u>(76,682)</u>	<u>(96,622)</u>
 Changes in net assets of governmental activities (page 19)	 \$	 <u><u>253,380</u></u>

MADRID COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2010

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 45,724
Inventories	22,766
Capital assets, net of accumulated depreciation	<u>11,505</u>
Total assets	<u>79,995</u>
Liabilities	
Unearned revenue	2,917
Net OPEB liability	<u>5,206</u>
Total liabilities	<u>8,123</u>
Net Assets	
Invested in capital assets	11,505
Unrestricted	<u>60,367</u>
Total net assets	<u>\$ 71,872</u>

MADRID COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 190,596
Miscellaneous	6,913
Total operating revenues	197,509
Operating expenses:	
Non-instructional programs:	
Salaries	140,831
Benefits	56,646
Services	2,455
Supplies	170,733
Depreciation	4,313
Total operating expenses	374,978
Operating loss	(177,469)
Non-operating revenues:	
State sources	3,161
Federal sources	108,837
Interest on investments	26
Total non-operating revenues	112,024
Change in net assets before other financing sources	(65,445)
Other financing sources:	
Transfer from General Fund	81,726
Change in net assets	16,281
Net assets beginning of year	55,591
Net assets end of year	\$ 71,872

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 190,892
Cash received from miscellaneous	6,913
Cash payments to employees for services	(192,271)
Cash payments to suppliers for goods or services	(161,421)
Net cash used in operating activities	(155,887)
Cash flows from non-capital financing activities:	
Transfer from General Fund	81,726
State grants received	3,161
Federal grants received	88,368
Net cash provided by non-capital financing activities	173,255
Cash flows from capital and related financing activities:	
Purchase of capital assets	(2,181)
Cash flows from investing and other activities:	
Interest on investments	26
Net increase in cash and cash equivalents	15,213
Cash and cash equivalents at beginning of year	30,511
Cash and cash equivalents at end of year	\$ 45,724
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (177,469)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	20,469
Depreciation	4,313
Increase in inventories	(8,702)
Increase in net OPEB liability	5,206
Increase in unearned revenue	296
Net cash used in operating activities	\$ (155,887)

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010, the District received \$20,469 of federal commodities.

MADRID COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2010

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Assets	
Cash and pooled investments	\$ 12,206
Total assets	<u>12,206</u>
Liabilities and Net Assets	
Liabilities:	
Due to other groups	<u>-</u>
Net assets:	
Reserved for scholarships	12,206
Total net assets	<u>\$ 12,206</u>

SEE NOTES TO FINANCIAL STATEMENTS

MADRID COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2010

	<u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$ 12,206</u>
Change in net assets	12,206
Net assets beginning of year	<u>-</u>
Net assets end of year	<u>\$ 12,206</u>

MADRID COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for 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 not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund is used to account for machinery and equipment expenditures as well as improvements to capital facilities.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government

commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current 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 Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned

or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund 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, 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments as of June 30, 2010.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 80,000
Nutrition	General	81,726
Total		<u>\$ 161,726</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/2009	6/23/2010	\$ -	300,000	300,000	-

During the year ended June 30, 2010, the District paid \$18,880 of interest on the ISCAP warrants.

(5) 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	\$ 113,194	2,181	-	115,375
Less accumulated depreciation	99,557	4,313	-	103,870
Business type activities capital assets, net	<u>\$ 13,637</u>	<u>(2,132)</u>	<u>-</u>	<u>11,505</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 112,126	-	-	112,126
Construction in progress	300,686	252,243	552,929	-
Total capital assets not being depreciated	412,812	252,243	552,929	112,126
Capital assets being depreciated:				
Buildings	6,797,529	340,578	11,002	7,127,105
Land improvements	504,600	251,107	61,256	694,451
Machinery and equipment	694,306	123,988	11,598	806,696
Total capital assets being depreciated	7,996,435	715,673	83,856	8,628,252
Less accumulated depreciation for:				
Buildings	3,202,754	6,591	11,002	3,198,343
Land improvements	483,998	4,944	61,256	427,686
Machinery and equipment	601,044	35,466	11,598	624,912
Total accumulated depreciation	4,287,796	47,001	83,856	4,250,941
Total capital assets being depreciated, net	3,708,639	668,672	-	4,377,311
Governmental activities capital assets, net	\$ 4,121,451	920,915	552,929	4,489,437

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 11,765
Support services:		
Administration		1,453
Operation and maintenance of plant		2,680
Transportation		19,568
Unallocated depreciation		11,535
Total governmental activities depreciation expense		\$ 47,001
Business type activities:		
Food services		\$ 4,313

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,280,000	-	110,000	1,170,000	115,000
Leases payable	-	194,479	-	194,479	61,460
Compensated absences	14,764	10,678	14,764	10,678	10,678
Early Retirement	385,966	113,567	89,541	409,992	158,529
Net OPEB retirement	-	81,888	-	81,888	-
Total	\$ 1,680,730	400,612	214,305	1,867,037	345,667

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 1, 2009			
	Interest Rates	Principal	Interest	Total
2011	2.10 %	\$ 115,000	36,800	151,800
2012	2.30	120,000	34,385	154,385
2013	2.60	120,000	31,625	151,625
2014	2.80	125,000	28,505	153,505
2015	3.10	130,000	25,005	155,005
2016-2019	3.4-4.0	560,000	54,750	614,750
Total		\$ 1,170,000	211,070	1,381,070

Leases Payable

Details of the District's June 30, 2010 capital lease obligation are as follows:

Year Ending June 30,	Capital Lease of June 12, 2009		
	Principal	Interest	Total
2011	\$ 61,460	10,271	71,731
2012	64,827	6,904	71,731
2013	68,192	3,539	71,731
Total	\$ 194,479	20,714	215,193

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's regular contractual salary from the salary schedule in effect during the employees last year of employment. Early retirement benefits paid during the year totaled \$89,541.

(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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$227,474, 212,280 and \$188,397, respectively, equal to the required contributions for each year.

(8) **Other Postemployment Benefits**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 34 active and 12 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical benefits are provided through fully-insured plans with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 128,591
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>128,591</u>
Contributions made	<u>46,703</u>
Increases in net OPEB obligation	<u>81,888</u>
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 81,888</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$46,703 to the medical plan. Plan members eligible for benefits contributed \$5,475, or 10.49% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Costs Contributed	Net OPEB Obligation
June 30, 2010	\$ 128,591	36.32%	\$ 81,888

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$672,326, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$672,326. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,102,329 and the ratio of the UAAL to covered payroll was 21.67%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual health cost trend rate is 6%.

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

Projected claim costs of the medical plan are \$374 per month for retirees less than age 65. The UAAL is being amortized as a

level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$230,760 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Categorical Funding

The District's ending balances for categorical funding by project as of the year ended June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Beginning Teacher Mentoring and Induction Program	\$ 899
Teacher Salary Supplement	33,445
Market Factor	1,918
Beginning Administrator Metoring and Induction Program	1,500
Model Core Curriculum	4,000
Professional Development for Model Core Curriculum	11,265
Professional Development	17,510
Market Factor Incentives	4,280
Total	<u>\$ 74,817</u>

REQUIRED SUPPLEMENTARY INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,614,831	197,535	2,812,366	3,595,713	3,595,713	(783,347)
State sources	3,024,596	3,161	3,027,757	3,703,660	3,703,660	(675,903)
Federal sources	500,455	108,837	609,292	193,854	193,854	415,438
Total revenues	6,139,882	309,533	6,449,415	7,493,227	7,493,227	(1,043,812)
Expenditures/Expenses:						
Instruction	3,888,725	-	3,888,725	4,350,000	4,350,000	461,275
Support services	1,571,885	-	1,571,885	1,890,000	1,890,000	318,115
Non-instructional programs	9,373	374,978	384,351	533,000	533,000	148,649
Other expenditures	715,307	-	715,307	830,871	830,871	115,564
Total expenditures/expenses	6,185,290	374,978	6,560,268	7,603,871	7,603,871	1,043,603
Deficiency of revenues under expenditures/expenses	(45,408)	(65,445)	(110,853)	(110,644)	(110,644)	(209)
Other financing sources(uses), net	112,753	81,726	194,479	-	-	(194,479)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing uses	67,345	16,281	83,626	(110,644)	(110,644)	194,270
Balance beginning of year	739,573	55,591	795,164	631,269	631,269	163,895
Balance end of year	\$ 806,918	71,872	878,790	520,625	520,625	358,165

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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

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

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

MADRID COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING IN PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 672,326	672,326	0.0%	3,102,329	21.7%

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

OTHER SUPPLEMENTARY INFORMATION

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue: Student Activity	Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
Assets				
Cash and pooled investments	\$ 38,546	118,991	25,242	182,779
Receivables:				
Property tax:				
Delinquent	-	-	1,129	1,129
Succeeding year	-	-	53,300	53,300
Due from other governments	-	105,739	28	105,767
Total assets	\$ 38,546	224,730	79,699	342,975
Liabilities and Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	\$ -	-	53,300	53,300
Fund balances:				
Reserved for debt service	-	-	26,399	26,399
Unreserved fund balances	38,546	224,730	-	263,276
Total fund balances	38,546	224,730	26,399	289,675
Total liabilities and fund balances	\$ 38,546	224,730	79,699	342,975

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Special			Total
	Revenue:			Other
	Student	Capital	Debt	Nonmajor
	Activity	Projects	Service	Governmental
				Funds
Revenues:				
Local sources:				
Local tax	\$ -	365,865	75,693	441,558
Other	143,949	37,754	18	181,721
Total revenues	<u>143,949</u>	<u>403,619</u>	<u>75,711</u>	<u>623,279</u>
Expenditures:				
Current:				
Instruction:				
Other instruction	149,155	-	-	149,155
Other expenditures:				
Facilities acquisitions	-	332,135	-	332,135
Long-term debt:				
Principal	-	-	110,000	110,000
Interest and fiscal charges	-	-	42,412	42,412
Total expenditures	<u>149,155</u>	<u>332,135</u>	<u>152,412</u>	<u>633,702</u>
Excess(Deficiency) of revenues over(under) expenditures	(5,206)	71,484	(76,701)	(10,423)
Other financing sources(uses):				
Lease proceeds	-	194,479	-	194,479
Transfers in	-	-	80,000	80,000
Transfers out	-	(80,000)	-	(80,000)
Total other financing sources(uses)	<u>-</u>	<u>114,479</u>	<u>80,000</u>	<u>194,479</u>
Net change in fund balances	(5,206)	185,963	3,299	184,056
Fund balances beginning of year	<u>43,752</u>	<u>38,767</u>	<u>23,100</u>	<u>105,619</u>
Fund balances end of year	<u>\$ 38,546</u>	<u>224,730</u>	<u>26,399</u>	<u>289,675</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,116	756	-	1,872
7-12 Vocal Music	286	250	-	536
7-12 Music Trip	7,722	3,960	4,649	7,033
7-12 Instrumental Music	251	-	-	251
Elementary Music	1,074	534	704	904
Scholarships	4,706	9,500	14,206	-
7-12 Activities	1,753	847	1,818	782
Yearbook	50	1,259	1,309	-
HS Student Council	515	1,045	1,181	379
JH Student Council	182	-	-	182
K-6 Student Council	394	-	-	394
K-6 Building	2,829	2,775	2,263	3,341
Activity Passes	-	2,965	2,965	-
Boys Basketball	85	5,497	5,006	576
Boys Basketball Camp	2,490	5,598	7,440	648
Football	4,380	34,445	38,048	777
Baseball	1,022	4,825	4,042	1,805
Baseball Camp	-	3,093	3,093	-
Boys Track	55	4,318	4,283	90
Cross Country Camp	-	692	484	208
Golf	70	2,465	2,535	-
Football Camp	-	5,007	4,155	852
Girls Basketball	552	7,902	8,454	-
Volleyball	510	6,938	6,522	926
Softball	-	4,657	4,468	189
Softball Camp	-	9,686	7,816	1,870
Girls Track	55	2,317	2,372	-
District FCCLA	1,269	-	1,269	-
FCCLA	313	1,385	1,118	580
Spanish Club	658	-	-	658
HS Cheerleaders	1,224	9,825	10,079	970
JH Cheerleaders	261	221	221	261
7-12 Activity Awards	519	418	937	-
Team Tigers	-	4,457	2,424	2,033
Class of 2010	1,288	598	1,886	-
Class of 2011	3,058	2,776	3,254	2,580
Class of 2012	2,386	325	-	2,711
Class of 2013	1,637	200	-	1,837
Class of 2014	1,042	1,331	154	2,219
Class of 2015	-	1,082	-	1,082
Total	\$ 43,752	143,949	149,155	38,546

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund								
	Madrid Lions	Cathy Clark	Hinchliff Enterprises	MEA Scholarship	MEEF Scholarship	Carla Pies	Madrid Alumni	Madrid Masonic	Total
Assets									
Cash and pooled investments	\$ 1,500	500	1,000	100	7,256	150	1,200	500	12,206
Total assets	1,500	500	1,000	100	7,256	150	1,200	500	12,206
Liabilities	-	-	-	-	-	-	-	-	-
Net Assets									
Reserved for scholarships	\$ 1,500	500	1,000	100	7,256	150	1,200	500	12,206

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund								
	Madrid Lions	Cathy Clark	Hinchliff Enterprises	MEA Scholarship	MEEF Scholarship	Carla Pies	Madrid Alumni	Madrid Masonic	Total
Additions:									
Local sources:									
Gifts and contributions	\$ 1,500	500	1,000	100	7,256	150	1,200	500	12,206
Excess of revenues over expenditures	1,500	500	1,000	100	7,256	150	1,200	500	12,206
Net assets beginning of year	-	-	-	-	-	-	-	-	-
Net assets end of year	\$ 1,500	500	1,000	100	7,256	150	1,200	500	12,206

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expendi- tures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	\$ 15,077
National School Lunch Program	10.555	FY10	93,760 *
			108,837
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	29,945
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	16,578
			46,523
Special Education - Grants to States	84.027	FY10	5,240
Career and Technical Education - Basic Grants to States	84.048	FY10	4,404
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY10	1,238
Improving Teacher Quality State Grants	84.367	FY10	15,871
Grants for State Assessments and Related Activities	84.369	FY10	4,115
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act	84.394	FY10	283,953
Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY10	30,524
Special Education Grants to States, Recovery Act	84.391	FY10	66,773
			97,297
Total			\$ 567,478

* -Includes \$20,469 of non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Madrid Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

To the Board of Education of
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Madrid Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 24, 2011. 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 Madrid Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Madrid Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Madrid Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned costs item II-B-10 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

February 24, 2011

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable To Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Madrid Community School District:

Compliance

We have audited the compliance of Madrid Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Madrid Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Madrid Community School District's management. Our responsibility is to express an opinion on Madrid Community School District's compliance based on our audit.

We conducted our audit on compliance in accordance with U.S. generally accepted accounting standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Madrid Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Madrid Community School District's compliance with those requirements.

In our opinion, Madrid Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

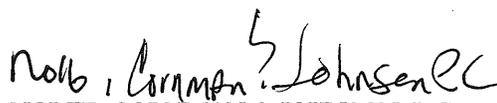
The management of Madrid Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Madrid Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madrid Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

February 24, 2011

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major Programs were as follows:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act.
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program.
 - CFDA Number 10.555 - National School Lunch Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Madrid Community School District did not qualify as a low-risk auditee.

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

II-B-10 Checks Written to Cash - We noted checks written payable to "cash" for gate start-up cash. Checks written payable to "cash" are considered bearer paper which anyone could cash if they were to be lost or stolen.

Recommendation - The District should refrain from writing checks payable to "cash" only. A better practice would be to also include the name of the custodian taking the check to the bank to obtain the cash.

Response - We will follow the auditor's recommendation.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010, did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - We noted that cash prizes were awarded to students for being top sellers during a magazine fundraiser. Giving cash or gift certificates/cards to students as incentives do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District has discussed with the magazine fundraising company and will no longer provide students with cash prizes or gift cards.

Conclusion - Response accepted.

IV-C-10 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.

IV-D-10 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-E-10 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.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were certified as open enrolled out was overstated by one student, as were the number of resident students reported. Total net result is the number certified to the Department of Education was overstated by two students.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - Our auditors will be contacting the Iowa Department of Education and the Department of Management to resolve this issue.

Conclusion - Response accepted.

IV-H-10 Supplemental Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 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.

IV-J-10 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.

IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-10 Statewide Sales and Servicing Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning Balance	\$	-
Statewide sales and service tax revenue		365,865
Expenditures/transfers out:		
School Infrastructure		
Other improvements		285,865
Debt service for school infrastructure		
Revenue debt		80,000
		<hr/>
Ending Balance	\$	<hr/> <hr/> -

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010, the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	<hr/>	<hr/>
Physical plant and equipment levy	\$ 0.34000	\$ 31,592

IV-M-10 Deficit Balances - At June 30, 2010, the District had deficit unrestricted net assets in governmental activities of \$23,653.

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

Response - The District will continue to monitor these funds and investigate alternatives to eliminate the deficit.

Conclusion - Response accepted.

IV-N-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - Steps have been taken and all outstanding checks have been cleared from the books.

Conclusion - Response accepted.