

MARTENSDALE-ST. MARYS 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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Martensdale-St. Marys Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 Election)		
A. Velvet Van Hoose	President	2009
Scott Anderson	Vice-President	2011
John Della Vedova	Board Member	2009
Nicole Bunch	Board Member	2011
Cathy Seymour	Board Member	2009
Board of Education (After September 2009 Election)		
Scott Anderson	President	2011
Nicole Bunch	Vice-President	2011
David Schutt	Board Member	2013
Wade Gibson	Board Member	2013
Amy Harper	Board Member	2013
School Officials		
Jean Peterson	Superintendent	2010
Jill Gavin	District Secretary/Treasurer and Business Manager	2010
Ahlers & Cooney	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 the
Martensdale-St. Marys 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 the Martensdale-St. Marys Community School District, Martensdale, Iowa as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2010 on our consideration of the Martensdale-St. Marys 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 16 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 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 Martensdale-St. Marys 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 unqualified opinions 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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

December 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Martensdale-St. Marys 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 increased from \$5,173,295 in fiscal 2009 to \$5,429,393 in fiscal 2010, while General Fund expenditures increased from \$5,191,609 in fiscal 2009 to \$5,235,580 in fiscal 2010. The District's General Fund balance increased from \$407,254 in fiscal 2009 to \$601,067 in fiscal 2010, a 47.59% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in federal sources in fiscal 2010. The increase in expenditures was due primarily to an increase in negotiated salary and benefits.
- As of June 30, 2010 the District's solvency ratio was 8.80% as compared to 7.67% for the year ended June 30, 2009.

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 Martensdale-St. Marys 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 Martensdale-St. Marys 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 Martensdale-St. Marys Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental 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-1
Martensdale-St. Marys Community School District Annual Financial Report

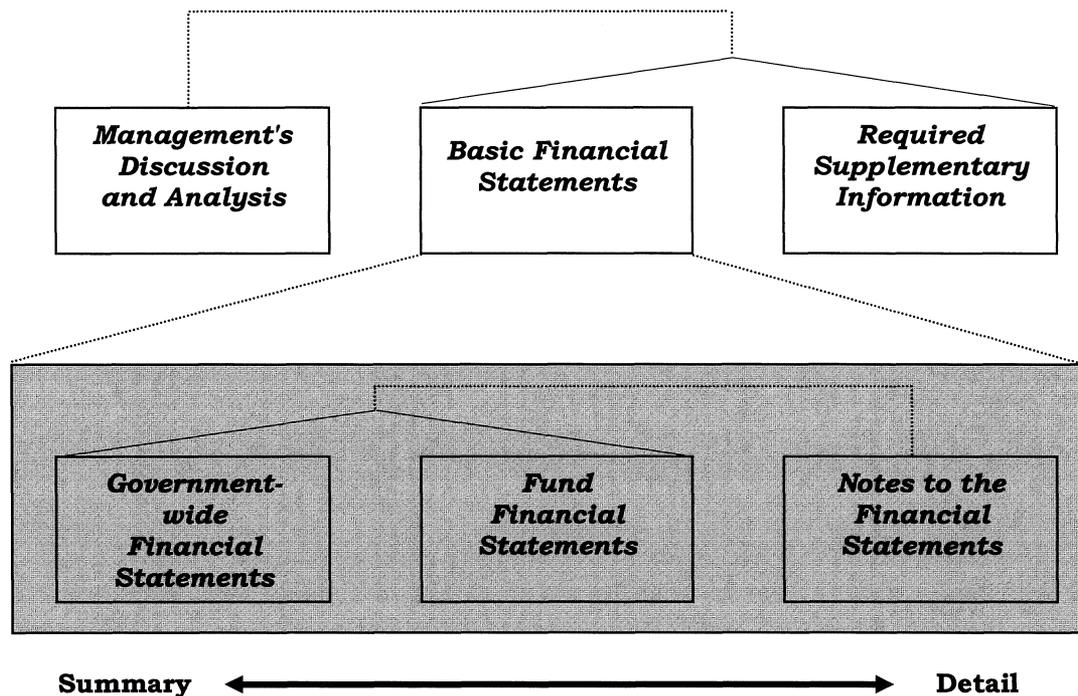


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year’s revenues

and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Funds and the 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 three Enterprise Funds, the School Nutrition Fund, the Day Care Fund and the Pre-kindergarten Fund.

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

The required financial statements for fiduciary funds include a statement of fiduciary net 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.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 4,597,775	7,986,693	47,620	13,760	4,645,395	8,000,453	-41.94%
Capital assets	7,343,853	4,387,911	38,715	43,268	7,382,568	4,431,179	66.61%
Total assets	11,941,628	12,374,604	86,335	57,028	12,027,963	12,431,632	-3.25%
Long-term liabilities	5,997,013	6,029,892	-	-	5,997,013	6,029,892	-0.55%
Other liabilities	2,884,003	3,134,212	5,903	13,409	2,889,906	3,147,621	-8.19%
Total liabilities	8,881,016	9,164,104	5,903	13,409	8,886,919	9,177,513	-3.17%
Net assets:							
Invested in capital assets, net of related debt	1,473,853	1,696,708	38,715	43,268	1,512,568	1,739,976	-13.07%
Restricted	1,036,284	948,277	-	-	1,036,284	948,277	9.28%
Unrestricted	550,475	565,515	41,717	351	592,192	565,866	4.65%
Total net assets	\$ 3,060,612	3,210,500	80,432	43,619	3,141,044	3,254,119	-3.47%

The District's combined net assets decreased by 3.47%, or \$113,075, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), 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 \$88,007 or 9.28% from 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 – increased \$26,326 or 4.65%.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 935,058	803,714	224,373	242,494	1,159,431	1,046,208	10.82%
Operating grants, contributions, and restricted interest	995,671	806,297	95,960	87,801	1,091,631	894,098	22.09%
General revenues:							
Property tax	1,865,051	1,696,665	-	-	1,865,051	1,696,665	9.92%
Income surtax	218,715	222,455	-	-	218,715	222,455	-1.68%
Statewide sales, services and use tax	309,375	296,745	-	-	309,375	296,745	4.26%
Unrestricted state grants	1,855,512	2,135,454	-	-	1,855,512	2,135,454	-13.11%
Unrestricted interest	25,156	28,729	-	35	25,156	28,764	-12.54%
Other general revenue	58,982	58,110	-	-	58,982	58,110	1.50%
Total revenues	6,263,520	6,048,169	320,333	330,330	6,583,853	6,378,499	3.22%
Program expenses:							
Governmental activities:							
Instruction	3,820,456	3,579,139	49,886	110,685	3,870,342	3,689,824	4.89%
Support services	1,690,579	1,905,402	-	593	1,690,579	1,905,995	-11.30%
Non-instructional programs	-	-	257,796	288,438	257,796	288,438	-10.62%
Other expenses	878,211	587,806	-	-	878,211	587,806	49.40%
Total expenses	6,389,246	6,072,347	307,682	399,716	6,696,928	6,472,063	3.47%
Changes in net assets before transfers	(125,726)	(24,178)	12,651	(69,386)	(113,075)	(93,564)	20.85%
Transfers	(24,162)	(33,276)	24,162	33,276	-	-	0.00%
Changes in net assets	(149,888)	(57,454)	36,813	(36,110)	(113,075)	(93,564)	20.85%
Beginning net assets	3,210,500	3,267,954	43,619	79,729	3,254,119	3,347,683	-2.79%
Ending net assets	\$ 3,060,612	3,210,500	80,432	43,619	3,141,044	3,254,119	-3.47%

Local tax and unrestricted state grants account for 67.83% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100% of the revenue from business type activities.

The District's total revenues were approximately \$6.58 million, of which \$6.26 million was for governmental activities and \$0.32 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.22% increase in revenues and a 3.47% increase in expenses. Property tax increased \$168,386 to fund increases in expenses. The increases in expenses were related to increases in the negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$6,263,520 and expenses were \$6,389,426 for the year ended June 30, 2010.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change	2010	2009	Change
			2009-10			2009-10
Instruction	\$ 3,820,456	3,579,139	6.74%	2,097,537	2,149,034	-2.40%
Support services	1,690,579	1,905,402	-11.27%	1,686,084	1,903,626	-11.43%
Other expenses	878,211	587,806	49.40%	674,896	409,676	64.74%
Totals	\$ 6,389,246	6,072,347	5.22%	4,458,517	4,462,336	-0.09%

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$935,058.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$955,671.
- The net cost of governmental activities was financed with \$1,865,051 in local tax, \$218,715 in income surtax, \$309,375 in statewide sales, services and use tax, \$1,855,512 in unrestricted state grants, \$25,156 in interest income, and \$58,982 in other general revenue.

Business Type Activities

Revenues of the District's business type activities were \$320,333 and expenses were \$307,682. The District's business type activities include the School Nutrition Fund, Day Care Fund and Pre-Kindergarten 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 Martensdale-St. Marys Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,541,484, below last year's ending fund balances of \$4,678,757. This decrease was due to the increase in facilities acquisition expenditures during the year.

Governmental Fund Highlights

- The District's General Fund financial position increased from \$407,254 to \$601,067 is the product of many factors:
 - The District saw an increase in General Fund revenues as compared to fiscal 2009; the increase was due primarily to the increase in federal sources.

-
- The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
 - The Capital Projects Fund balance decreased from \$3,740,288 in fiscal 2009 to \$331,369 in fiscal 2010. The balance decreased due to the increase in facilities acquisition expenditures and various construction costs.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$58,479 at June 30, 2009 to \$76,910 at June 30, 2010, representing an increase of 31.52%. The Day Care Fund net assets increased from a deficit balance of \$123 at June 30, 2009 to \$3,522 at June 30, 2010, representing an increase of 2,963.41%. Net assets for the Pre-Kindergarten fund at June 30, 2010 were \$0 compared to a deficit balance of \$14,737 at June 30, 2009. During the year ended June 30, 2010 the District closed out the Pre-Kindergarten fund and moved it to the General Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Martensdale-St. Marys Community School District amended its budget one time to reflect additional expenditures associated with expenditures in all functions.

The District's revenues were \$354,485 less than budgeted revenues, a variance of 5.12%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$7,382,568, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$276,021.

The original cost of the District's capital assets was \$9,963,838. Governmental funds account for \$9,809,865 with the remainder of \$153,973 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land category. The District's land totaled \$141,670 at June 30, 2009, compared to \$431,172 reported at June 30, 2010. This increase is a result of the District purchasing land during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 431,172	141,670	-	-	431,172	141,670	204.35%
Construction in progress	-	281,092	-	-	-	281,092	-100.00%
Land improvements	63,501	67,550			63,501	67,550	-5.99%
Buildings and improvements	6,696,857	3,690,455	-	-	6,696,857	3,690,455	81.46%
Machinery and equipment	152,323	207,144	38,715	43,268	191,038	250,412	-23.71%
Total	\$ 7,343,853	4,387,911	38,715	43,268	7,382,568	4,431,179	66.61%

Long-Term Debt

At June 30, 2010, the District had \$5,997,013 in total long-term debt outstanding. This represents a decrease of 0.55% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$2,115,000 at June 30, 2010.

The District had total outstanding revenue bonds payable of \$3,755,000 at June 30, 2010.

The District had total outstanding post employment benefits from the General Fund of \$678 at June 30, 2010.

The District had total outstanding early retirement from the Management Levy Fund of \$27,335 at June 30, 2010.

The District had a Net OPEB liability of \$99,000 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General Obligation Bonds	\$ 2,115,000	2,235,000	-5.37%
Revenue Bonds	3,755,000	3,755,000	100.00%
Post Employment Benefits	678	4,747	-85.72%
Early Retirement	27,335	35,145	-22.22%
Net OPEB liability	99,000	-	100.00%
Totals	\$ 5,997,013	6,029,892	-0.55%

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:

- With the District's current financial challenges, the FY 2010 state budget cut of 10% resulted in a shifting of funding on property taxes and other revenue sources. As a result of the lost revenues from the state budget cut, the District will continue to explore all opportunities to reduce expenditures and/or increase revenues.

-
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.

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 Jill Gavin, District Secretary/Treasurer and Business Manager, Martensdale-St. Marys Community School District, Martensdale, Iowa, 50160.

Basic Financial Statements

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents:	\$ 1,880,620	40,635	1,921,255
Receivables:			
Property tax:			
Delinquent	26,397	-	26,397
Succeeding year	2,185,199	-	2,185,199
Income surtax	211,612	-	211,612
Accounts	861	-	861
Due from other governments	293,086	-	293,086
Inventories	-	6,985	6,985
Capital assets, net of accumulated depreciation	7,343,853	38,715	7,382,568
TOTAL ASSETS	11,941,628	86,335	12,027,963
LIABILITIES			
Accounts payable	219,073	721	219,794
Salaries and benefits payable	424,900	-	424,900
Interest payable	39,324	-	39,324
Deferred revenue:			
Succeeding year property tax	2,185,199	-	2,185,199
Other	15,507	-	15,507
Unearned revenue	-	5,182	5,182
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	125,000	-	125,000
Post employment benefit	678	-	678
Early retirement	7,810	-	7,810
Portion due after one year:			
General obligation bonds	1,990,000	-	1,990,000
Revenue bonds	3,755,000	-	3,755,000
Net OPEB liability	99,000	-	99,000
Early retirement	19,525	-	19,525
TOTAL LIABILITIES	8,881,016	5,903	8,886,919
NET ASSETS			
Invested in capital assets, net of related debt	1,473,853	38,715	1,512,568
Restricted for:			
Categorical funding	123,202	-	123,202
Management levy	2,138	-	2,138
Physical plant and equipment levy	62,425	-	62,425
Capital projects	331,369	-	331,369
Debt service	454,264	-	454,264
Other special revenue purposes	62,886	-	62,886
Unrestricted	550,475	41,717	592,192
TOTAL NET ASSETS	\$ 3,060,612	80,432	3,141,044

SEE NOTES TO BASIC FINANCIAL STATEMENTS

Exhibit B

**MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
Functions/Programs:						
Governmental activities						
Instruction						
Regular instruction	\$ 2,739,793	515,327	691,923	(1,532,543)	-	(1,532,543)
Special instruction	699,391	236,555	95,938	(366,898)	-	(366,898)
Other instruction	381,272	183,176	-	(198,096)	-	(198,096)
	<u>3,820,456</u>	<u>935,058</u>	<u>787,861</u>	<u>(2,097,537)</u>	<u>-</u>	<u>(2,097,537)</u>
Support services						
Student	96,182	-	-	(96,182)	-	(96,182)
Instructional staff	49,990	-	-	(49,990)	-	(49,990)
Administration	733,559	-	-	(733,559)	-	(733,559)
Operation and maintenance of plant	507,842	-	-	(507,842)	-	(507,842)
Transportation	303,006	-	4,495	(298,511)	-	(298,511)
	<u>1,690,579</u>	<u>-</u>	<u>4,495</u>	<u>(1,686,084)</u>	<u>-</u>	<u>(1,686,084)</u>
Other expenditures						
Facilities acquisitions	256,560	-	-	(256,560)	-	(256,560)
Long-term debt						
Interest and fiscal charges	215,325	-	-	(215,325)	-	(215,325)
AEA flowthrough	203,315	-	203,315	-	-	-
Depreciation(unallocated)*	203,011	-	-	(203,011)	-	(203,011)
	<u>878,211</u>	<u>-</u>	<u>203,315</u>	<u>(674,896)</u>	<u>-</u>	<u>(674,896)</u>
Total governmental activities	<u>6,389,246</u>	<u>935,058</u>	<u>995,671</u>	<u>(4,458,517)</u>	<u>-</u>	<u>(4,458,517)</u>
Business Type activities						
Instruction						
Regular instruction	49,886	40,412	-	-	(9,474)	(9,474)
Non-instructional programs						
Food service operations	209,201	131,721	95,960	-	18,480	18,480
Day care operations	48,595	52,240	-	-	3,645	3,645
Total business type activities	<u>307,682</u>	<u>224,373</u>	<u>95,960</u>	<u>-</u>	<u>12,651</u>	<u>12,651</u>
Total	<u>\$ 6,696,928</u>	<u>1,159,431</u>	<u>1,091,631</u>	<u>(4,458,517)</u>	<u>12,651</u>	<u>(4,445,866)</u>
General Revenues and Transfers:						
General Revenues						
Local tax for						
General purposes				\$ 1,587,048	-	1,587,048
Debt service				164,906	-	164,906
Capital outlays				113,097	-	113,097
Statewide sales, services and use tax				309,375	-	309,375
Income surtax				218,715	-	218,715
Unrestricted state grants				1,855,512	-	1,855,512
Unrestricted investment earnings				25,156	-	25,156
Other general revenues				58,982	-	58,982
Transfers				(24,162)	24,162	-
Total general revenues and transfers				<u>4,308,629</u>	<u>24,162</u>	<u>4,332,791</u>
Changes in net assets				(149,888)	36,813	(113,075)
Net assets beginning of year				3,210,500	43,619	3,254,119
Net assets end of year				<u>\$ 3,060,612</u>	<u>80,432</u>	<u>3,141,044</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2010

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 1,049,117	221,451	451,917	158,135	1,880,620
Receivables:					
Property tax:					
Delinquent	21,732	-	2,347	2,318	26,397
Succeeding year	1,802,521	-	216,035	166,643	2,185,199
Income surtax	211,612	-	-	-	211,612
Accounts	861	-	-	-	861
Due from other governments	95,577	197,509	-	-	293,086
TOTAL ASSETS	\$ 3,181,420	418,960	670,299	327,096	4,597,775
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	125,813	87,591	-	5,669	219,073
Salaries and benefits payable	424,900	-	-	-	424,900
Deferred revenue:					
Succeeding year property tax	1,802,521	-	216,035	166,643	2,185,199
Income surtax	211,612	-	-	-	211,612
Other	15,507	-	-	-	15,507
Total liabilities	2,580,353	87,591	216,035	172,312	3,056,291
Fund balances:					
Reserved for:					
Categorical funding	123,202	-	-	-	123,202
Debt service	-	-	454,264	-	454,264
Unreserved, reported in:					
General Fund	477,865	-	-	-	477,865
Special Revenue Funds	-	-	-	154,784	154,784
Capital projects fund	-	331,369	-	-	331,369
Total fund balances	601,067	331,369	454,264	154,784	1,541,484
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,181,420	418,960	670,299	327,096	4,597,775

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS 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)	\$	1,541,484
 <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.		7,343,853
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		211,612
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds.		(39,324)
Long-term liabilities, including bonds payable, early retirement, post employment benefits, and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds		<u>(5,997,013)</u>
Net assets of governmental activities(page 18)	\$	<u><u>3,060,612</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

Exhibit E

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,745,523	309,375	164,906	162,817	2,382,621
Tuition	685,781	-	-	-	685,781
Other	134,401	6,249	47	192,718	333,415
State sources	2,389,253	4,378	-	-	2,393,631
Federal sources	457,552	-	-	-	457,552
Total revenues	<u>5,412,510</u>	<u>320,002</u>	<u>164,953</u>	<u>355,535</u>	<u>6,253,000</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	2,665,678	2,701	-	7,905	2,676,284
Special	687,306	-	-	3,690	690,996
Other	170,443	-	-	192,893	363,336
	<u>3,523,427</u>	<u>2,701</u>	<u>-</u>	<u>204,488</u>	<u>3,730,616</u>
Support services:					
Student	92,463	-	-	-	92,463
Instructional staff	33,212	-	-	-	33,212
Administration	691,270	1,234	-	34,131	726,635
Operation and maintenance of plant	374,037	-	-	122,746	496,783
Transportation	286,577	-	-	2,807	289,384
	<u>1,477,559</u>	<u>1,234</u>	<u>-</u>	<u>159,684</u>	<u>1,638,477</u>
Other expenditures:					
Facilities acquisitions	-	3,487,168	-	-	3,487,168
Long-term debt:					
Principal	-	-	120,000	-	120,000
Interest and fiscal charges	-	-	203,369	-	203,369
AEA flowthrough	203,315	-	-	-	203,315
	<u>203,315</u>	<u>3,487,168</u>	<u>323,369</u>	<u>-</u>	<u>4,013,852</u>
Total expenditures	<u>5,204,301</u>	<u>3,491,103</u>	<u>323,369</u>	<u>364,172</u>	<u>9,382,945</u>
Excess (deficiency) of revenues over (under) expenditures	<u>208,209</u>	<u>(3,171,101)</u>	<u>(158,416)</u>	<u>(8,637)</u>	<u>(3,129,945)</u>
Other financing sources(uses):					
Transfer in	49	7,068	244,886	-	252,003
Transfer out	(31,279)	(244,886)	-	-	(276,165)
Proceeds from disposal of equipment	16,834	-	-	-	16,834
Total other financing sources(uses)	<u>(14,396)</u>	<u>(237,818)</u>	<u>244,886</u>	<u>-</u>	<u>(7,328)</u>
Net change in fund balances	193,813	(3,408,919)	86,470	(8,637)	(3,137,273)
Fund balance beginning of year	<u>407,254</u>	<u>3,740,288</u>	<u>367,794</u>	<u>163,421</u>	<u>4,678,757</u>
Fund balance end of year	<u>\$ 601,067</u>	<u>331,369</u>	<u>454,264</u>	<u>154,784</u>	<u>1,541,484</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS 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) \$ (3,137,273)

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

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

Expenditures for capital assets	\$ 3,226,845	
Depreciation expense	<u>(270,903)</u>	2,955,942

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 liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Issued	\$ 0	
Repaid	<u>120,000</u>	120,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

(11,956)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.

10,520

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	\$ 7,810	
Compensated absences	4,747	
Post employment benefits	(678)	
Other postemployment benefits	<u>(99,000)</u>	<u>(87,121)</u>

Changes in net assets of governmental activities(page 19) \$ (149,888)

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 JUNE 30, 2010

	School Nutrition	Day Care	Total
ASSETS			
Cash and cash equivalents	\$ 36,502	4,133	40,635
Inventories	6,985	-	6,985
Capital assets, net of accumulated depreciation	38,715	-	38,715
TOTAL ASSETS	82,202	4,133	86,335
LIABILITIES			
Accounts payable	110	611	721
Unearned revenue	5,182	-	5,182
TOTAL LIABILITIES	5,292	611	5,903
NET ASSETS			
Invested in capital assets	38,715	-	38,715
Unrestricted	38,195	3,522	41,717
Total net assets	\$ 76,910	3,522	80,432

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	School Nutrition	Day Care	Pre Kindergarten	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 131,721	52,240	40,412	224,373
OPERATING EXPENSES:				
Instruction:				
Regular:				
Salaries	-	-	49,886	49,886
Non-instructional programs:				
Food and community service operations:				
Salaries	80,270	36,668	-	116,938
Benefits	11,425	5,039	-	16,464
Services	4,177	-	-	4,177
Supplies	105,711	6,888	-	112,599
Other	2,500	-	-	2,500
Depreciation	5,118	-	-	5,118
Total food and community service operations	209,201	48,595	-	257,796
TOTAL OPERATING EXPENSES	209,201	48,595	49,886	307,682
OPERATING GAIN (LOSS)	(77,480)	3,645	(9,474)	(83,309)
NON-OPERATING REVENUES:				
State sources	2,449	-	-	2,449
Federal sources	93,511	-	-	93,511
TOTAL NON-OPERATING REVENUES	95,960	-	-	95,960
Changes in net assets before other financing sources (uses)	18,480	3,645	(9,474)	12,651
Other financing sources (uses):				
Transfers in	-	-	24,211	24,211
Transfers out	(49)	-	-	(49)
	(49)	-	24,211	24,162
Changes in net assets	18,431	3,645	14,737	36,813
Net assets beginning of year	58,479	(123)	(14,737)	43,619
Net assets end of year	\$ 76,910	3,522	-	80,432

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2010

	School Nutrition	Day Care	Pre Kindergarten	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 135,169	-	-	135,169
Cash received from miscellaneous operating activities	-	52,240	40,412	92,652
Cash payments to employees for services	(91,695)	(41,707)	(61,558)	(194,960)
Cash payments to suppliers for goods or services	(96,136)	(6,280)	-	(102,416)
Net cash provided by (used in) operating activities	(52,662)	4,253	(21,146)	(69,555)
Cash flows from non-capital financing activities:				
State grants received	2,449	-	-	2,449
Federal grants received	72,776	-	-	72,776
Transfer from the General Fund	-	-	24,211	24,211
Transfer to the General Fund	(49)	-	-	(49)
Net cash provided by non-capital financing activities	75,176	-	24,211	99,436
Cash flows from capital and other financing activities:				
Acquisition of assets	(565)	-	-	(565)
Net increase in cash and cash equivalents	21,949	4,253	3,065	29,267
Cash and cash equivalents at beginning of year	14,553	(120)	(3,065)	11,368
Cash and cash equivalents at end of year	\$ 36,502	4,133	-	40,635
Reconciliation of operating loss to net cash used in operating activities:				
Operating income (loss)	\$ (77,480)	3,645	(9,474)	(83,309)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:				
Commodities consumed	20,735	-	-	20,735
Depreciation	5,118	-	-	5,118
Increase in inventories	(4,593)	-	-	(4,593)
Increase in accounts payable	110	608	-	718
Decrease in salaries and benefits payable	-	-	(11,672)	(11,672)
Increase in deferred revenue	3,448	-	-	3,448
Net cash used in operating activities	\$ (52,662)	4,253	(21,146)	(69,555)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$20,735.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	<u>\$ 76,459</u>
LIABILITIES	<u>-</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 76,459</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	<u>\$ 3,344</u>
Deductions:	
Instruction:	
Regular:	
Scholarships awarded	<u> 3,000</u>
Change in net assets	344
Net assets beginning of year	<u> 76,115</u>
Net assets end of year	<u><u>\$ 76,459</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

(1) Summary of Significant Accounting Policies

The Martensdale-St. Marys Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and pre-kindergarten. The geographic area served includes the Cities of Martensdale and St. Marys, Iowa, and the predominate agricultural territories in Warren and Madison 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, Martensdale-St. Marys 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 Martensdale-St. Marys Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren and Madison 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 service.

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

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

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

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

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

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise Fund, School Nutrition Fund, Day Care Fund and Pre-kindergarten Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Day Care Fund is used to account for the day care service operations of the District. The Pre-kindergarten Fund is used to account for services provided to Pre-kindergarten aged children by the District.

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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 are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property Tax Receivable – Property tax 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.

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Improvements other than buildings	500
Intangibles	25,000
School Nutrition Fund equipment	500
Other machinery and equipment	500

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	5-12 years
Machinery and equipment	5-12 years

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

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

Deferred revenue 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 when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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. During the year ended June 30, 2010 expenditures in the other expenditures functional area exceeded the amount budgeted.

(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; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Obligations Portfolio which are valued at an amortized cost of \$1,031,438 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(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	\$ 244,886
General	Enterprise, School Nutrition	49
Capital Projects	General	7,068
Enterprise, Pre-Kindergarten	General	24,211
Total		<u>\$ 276,214</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 Schools 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 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%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. N prime rate plus 50 basis points with a minimum interest rate of 4.50%. 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	\$ -	250,000	250,000	-

During the year ended June 30, 2010, the District paid \$17,035 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 153,678	565	270	153,973
Less accumulated depreciation	110,410	5,118	270	115,258
Business-type activities capital assets, net	<u>\$ 43,268</u>	<u>(4,553)</u>	<u>0</u>	<u>38,715</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 141,670	289,502	-	431,172
Construction in progress	281,092	2,870,869	3,151,961	-
Total capital assets not being depreciated	<u>422,762</u>	<u>3,160,371</u>	<u>3,151,961</u>	<u>431,172</u>
Land improvements	80,969	-	-	80,969
Buildings and improvements	5,173,713	3,205,364	-	8,379,077
Machinery and equipment	905,576	13,071	-	918,647
Total capital assets being depreciated	<u>6,160,258</u>	<u>3,218,435</u>	<u>-</u>	<u>9,378,693</u>
Less accumulated depreciation for:				
Land improvements	13,419	4,049	-	17,468
Buildings and improvements	1,483,258	198,962	-	1,682,220
Machinery and equipment	698,432	67,892	-	766,324
Total accumulated depreciation	<u>2,195,109</u>	<u>270,903</u>	<u>-</u>	<u>2,466,012</u>
Total capital assets being depreciated, net	<u>3,965,149</u>	<u>2,947,532</u>	<u>-</u>	<u>6,912,681</u>
Governmental activities capital assets, net	<u>\$ 4,387,911</u>	<u>6,107,903</u>	<u>3,151,961</u>	<u>7,343,853</u>

Depreciation expense was charged by the District as follows:

Instruction:		
Regular		\$ 5,100
Other		17,048
Support services:		
Student		600
Instructional staff		18,778
Administration		3,120
Operation and maintenance of plant		9,624
Transportation		13,622
Unallocated depreciation		<u>203,011</u>
Total governmental activities depreciation expense		<u>\$ 270,903</u>
Business-type activities:		
Food services		<u>\$ 5,118</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 2,235,000	-	120,000	2,115,000	125,000
Revenue Bonds	3,755,000	-	-	3,755,000	-
Post Employment Benefits	4,748	-	4,070	678	678
Early Retirement	35,145	-	7,810	27,335	7,810
Net OPEB liability	-	99,000	-	99,000	-
Total	<u>\$ 6,029,893</u>	<u>99,000</u>	<u>131,880</u>	<u>5,997,013</u>	<u>133,488</u>

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 December 31, 2003			
	Interest Rates	Principal	Interest	Total
2011	3.25 % \$	125,000	90,635	215,635
2012	3.50	130,000	86,573	216,573
2013	3.75	135,000	82,022	217,022
2014	4.00	140,000	76,960	216,960
2015	4.10	150,000	71,360	221,360
2016-2020	4.20-4.60	835,000	256,975	1,091,975
2021-2023	4.70-4.75	600,000	57,855	657,855
Total		\$ 2,115,000	722,380	2,837,380

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 21, 2009			
	Interest Rates	Principal	Interest	Total
2011	3.50 % \$	0	174,738	174,738
2012	3.50	100,000	172,988	272,988
2013	3.50	100,000	169,488	269,488
2014	3.50	140,000	165,288	305,288
2015	3.50	145,000	160,301	305,301
2016-2020	4.00-4.38	840,000	707,137	1,547,137
2021-2025	4.63-5.00	1,055,000	493,079	1,548,079
2026-2030	5.13-5.25	1,375,000	186,844	1,561,844
Total		\$ 3,755,000	2,229,863	5,984,863

The District has pledged future statewide sales, services and use tax revenues to repay the \$3,755,000 of bonds issued in May 2009. The bonds were issued for the purpose of financing construction projects. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$5,984,863. For the current year, \$106,784 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$309,375.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- a) \$321,237 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.

- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Post-Employment Benefits

The District offered a post-employment benefit package. The post-employment benefit included family health insurance for four years with a cap of \$800 per month and two more years of single health insurance with a cap of \$315 per month. The postemployment benefit will be paid from the General Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Employees participating in the early retirement plan are eligible to continue participation in the District's group insurance plan by meeting the requirements of the insurer. The District will pay the cost of the single premium at the level it was when the employee retired. The employee is responsible for paying any increase in premium costs. Early retirement benefits paid during the year ended June 30, 2010, totaled \$7,810.

(7) Operating Lease Obligations

The District leases four copiers and one printer on a monthly basis. The lease contract for the four copiers extends through April 30, 2014. The lease contract for the printer extends through August 31, 2014. Annual payments for the copier and printer leases are \$23,484 and \$11,460 respectively.

(8) 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 payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$187,115, \$179,710, and \$151,228, respectively, equal to the required contributions for each year.

(9) Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 51 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with United Healthcare. Retirees under age 65 pay the same premium for the medical/prescription drug 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	\$ 136,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>136,000</u>
Contributions made	<u>(37,000)</u>
Increase in net OPEB obligation	99,000
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u><u>\$ 99,000</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition date as July 1, 2009. The end of the 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 \$37,000, to the medical plan. Plan members eligible for benefits contributed \$29,000, or 18.13% 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 Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 136,000	27.21%	\$ 99,000

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 \$725,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$725,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,330,014 and the ratio of the UAAL to covered payroll was 31.1%. 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. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, 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 alternative measurement method was used. The actuarial assumptions include a 4.50% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$397 per month for retirees on the HMO plan and \$446 per month for retirees on the POS plan. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(10) Risk Management

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2010 were \$98,632.

Martensdale-St. Marys 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.

(11) 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 \$203,315 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.

(12) Construction Commitment

The District has entered into contracts totaling \$2,925,670 for HVAC retrofitting and an athletic complex. As of June 30, 2010, costs of \$2,925,670 had been incurred against the contracts as construction was completed. The total costs of construction have been added to the capital assets.

(13) Budget Overexpenditure

During the year ended June 30, 2010, the District exceeded its certified budget in the other expenditures functional area.

(14) Categorical Funding

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

<u>Project</u>	<u>Amount</u>
At-Risk Supplemental Weighting	\$ 8,786
Gifted and Talented	2,264
Dropout and Dropout Prevention	72,218
Salary Improvement Program	25,957
Professional Development	2,098
Beginning Teacher Mentoring	5,992
Professional Development for Model Core Curriculum	1,674
Market Factor	449
Market Factor Incentives	<u>3,764</u>
Total	<u>\$ 123,202</u>

Required Supplementary Information

MARTENSDALE-ST. MARYS 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	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Types		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 3,401,817	224,373	3,626,190	3,449,909	3,449,909	176,281
State sources	2,393,631	2,449	2,396,080	3,311,909	3,311,909	(915,829)
Federal sources	457,552	93,511	551,063	166,000	166,000	385,063
Total revenues	<u>6,253,000</u>	<u>320,333</u>	<u>6,573,333</u>	<u>6,927,818</u>	<u>6,927,818</u>	<u>(354,485)</u>
Expenditures:						
Instruction	3,730,616	49,886	3,780,502	4,054,000	5,000,000	1,219,498
Support services	1,638,477	-	1,638,477	2,160,000	3,500,000	1,861,523
Non-instructional programs	-	257,796	257,796	265,000	500,000	242,204
Other expenditures	4,013,852	-	4,013,852	1,423,197	4,000,000	(13,852)
Total expenditures/expenses	<u>9,382,945</u>	<u>307,682</u>	<u>9,690,627</u>	<u>7,902,197</u>	<u>13,000,000</u>	<u>3,309,373</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(3,129,945)	12,651	(3,117,294)	(974,379)	(6,072,182)	2,954,888
Other financing sources (uses), net	<u>(7,328)</u>	<u>24,162</u>	<u>16,834</u>	<u>-</u>	<u>-</u>	<u>16,834</u>
Excess(deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses	(3,137,273)	36,813	(3,100,460)	(974,379)	(6,072,182)	2,971,722
Balance beginning of year	<u>4,678,757</u>	<u>43,619</u>	<u>4,722,376</u>	<u>2,224,445</u>	<u>2,224,445</u>	<u>2,497,931</u>
Balance end of year	<u>\$ 1,541,484</u>	<u>80,432</u>	<u>1,621,916</u>	<u>1,250,066</u>	<u>(3,847,737)</u>	<u>5,469,653</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted disbursements by \$5,097,803.

During the year ended June 30, 2010, expenditures in the other expenditures function exceeded the amount budgeted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-c)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 725,000	\$ 725,000	0.0%	\$ 2,330,014	31.1%

See Note 9 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Other Supplementary Information

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
ASSETS				
Cash and pooled investments	\$ 34,324	62,996	60,815	158,135
Receivables:				
Property tax:				
Delinquent	708	-	1,610	2,318
Succeeding year	50,000	-	116,643	166,643
TOTAL ASSETS	\$ 85,032	62,996	179,068	327,096
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,559	110	-	5,669
Deferred revenue:				
Succeeding year property tax	50,000	-	116,643	166,643
	55,559	110	116,643	172,312
Unreserved fund balances	29,473	62,886	62,425	154,784
TOTAL LIABILITIES AND FUND BALANCES	\$ 85,032	62,996	179,068	327,096

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds
REVENUES:				
Local sources:				
Local tax	\$ 49,720	-	113,097	162,817
Other	9,542	183,176	-	192,718
TOTAL REVENUES	<u>59,262</u>	<u>183,176</u>	<u>113,097</u>	<u>355,535</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,905	-	-	7,905
Special	3,690	-	-	3,690
Other	-	192,893	-	192,893
Support services:				
Administration	10,070	-	24,061	34,131
Operation and maintenance of plant	64,307	-	58,439	122,746
Student transportation	2,807	-	-	2,807
TOTAL EXPENDITURES	<u>88,779</u>	<u>192,893</u>	<u>82,500</u>	<u>364,172</u>
NET CHANGE IN FUND BALANCES	(29,517)	(9,717)	30,597	(8,637)
FUND BALANCE BEGINNING OF YEAR	<u>58,990</u>	<u>72,603</u>	<u>31,828</u>	<u>163,421</u>
FUND BALANCE END OF YEAR	<u>\$ 29,473</u>	<u>62,886</u>	<u>62,425</u>	<u>154,784</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS 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	\$ 1,466	1,345	1,171	1,640
Vocal Music	954	2,417	1,706	1,665
Instrumental Music	690	2,115	2,735	70
Music Resale	129	4,290	3,539	880
Band	424	-	-	424
Boys Basketball	6,962	3,307	6,478	3,791
Athletic Resale	18	240	254	4
Athletics	(1,184)	61,585	58,446	1,955
Golf	631	-	138	493
Girls Basketball	1,379	10,782	9,409	2,752
Elementary Student Council	62	4,001	2,850	1,213
Volleyball	1,269	7,663	8,739	193
Boys Track	1,324	360	1,142	542
Football	5,836	9,565	8,838	6,563
Cross Country	211	468	237	442
Baseball	35	12,650	9,759	2,926
Girls Track	851	1,022	837	1,036
Wrestling	5	836	-	841
Softball	5,228	2,160	6,818	570
Junior High Student Council	126	-	-	126
Pop	233	3,130	2,950	413
Student Council	808	1,966	2,169	605
Shop	-	162	-	162
Home Ec	-	171	-	171
Student Ambassadors	1,880	-	1,880	-
National Honor Society	458	159	145	472
Dance	1,316	3,023	2,302	2,037
Linn Grove	-	1,241	1,016	225
Math Resale	203	-	203	-
Class of 2010	637	5,770	5,700	707
Class of 2011	1,412	5,663	6,794	281
Class of 2012	1,275	50	1,000	325
Class of 2013	1,591	75	-	1,666
Class of 2014	452	-	-	452
Class of 2015	-	1,162	414	748
Spirit Club	-	812	303	509
Share the vision	24,474	17,537	34,852	7,159
Annual	12,085	7,474	2,711	16,848
Wrestling Cheerleaders	371	1,523	1,098	796
FB/BB Cheerleaders	1,034	6,424	6,260	1,198
General Activities	(2,042)	2,028	-	(14)
Total	\$ 72,603	183,176	192,893	62,886

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2010

	Debt Service	Debt Sinking	Total
ASSETS			
Cash and pooled investments	\$ 43,281	408,636	451,917
Receivables:			
Property tax:			
Delinquent	2,347	-	2,347
Succeeding year	216,035	-	216,035
TOTAL ASSETS	\$ 261,663	408,636	670,299
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 216,035	-	216,035
Fund balances:			
Reserved for debt service	45,628	408,636	454,264
TOTAL LIABILITIES AND FUND BALANCES	\$ 261,663	408,636	670,299

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS
 YEAR ENDED JUNE 30, 2010

	Debt Service	Debt Sinking	Total
REVENUES:			
Local sources:			
Local tax	\$ 164,906	-	164,906
Other	-	47	47
Total revenues	<u>164,906</u>	<u>47</u>	<u>164,953</u>
EXPENDITURES:			
Other expenditures:			
Long-term debt:			
Principal	120,000	-	120,000
Interest and fiscal charges	95,835	107,534	203,369
Total expenditures	<u>215,835</u>	<u>107,534</u>	<u>323,369</u>
Deficiency of revenues under expenditures	(50,929)	(107,487)	(158,416)
Other financing sources:			
Transfer in	<u>50,000</u>	<u>194,886</u>	<u>244,886</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(929)	87,399	86,470
Fund balance beginning of year	<u>46,557</u>	<u>321,237</u>	<u>367,794</u>
Fund balance end of year	<u>\$ 45,628</u>	<u>408,636</u>	<u>454,264</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS 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	\$ 2,382,621	2,199,499	2,104,531	2,020,429	1,828,027	1,782,209	1,468,089
Tuition	685,781	608,670	500,882	346,166	268,793	193,115	237,180
Other	333,415	287,204	299,851	277,391	257,101	274,261	228,111
State sources	2,393,631	2,718,850	2,653,668	2,535,980	2,256,776	2,278,432	2,197,005
Federal sources	457,552	222,901	141,168	163,723	387,275	304,235	186,085
Total	<u>\$ 6,253,000</u>	<u>6,037,124</u>	<u>5,700,100</u>	<u>5,343,689</u>	<u>4,997,972</u>	<u>4,832,252</u>	<u>4,316,470</u>
Expenditures:							
Current:							
Instruction:							
Regular	\$ 2,676,284	2,560,160	2,196,803	2,091,929	1,919,119	1,802,790	1,824,800
Special	690,996	758,459	632,249	524,806	592,288	645,026	422,627
Other	363,336	314,631	487,519	405,925	346,799	358,071	367,606
Support services:							
Student	92,463	134,847	142,225	140,778	103,331	93,793	89,627
Instructional staff	33,212	37,821	42,106	41,249	58,315	60,109	57,935
Administration	726,635	831,298	558,761	573,015	522,627	461,959	519,924
Operation and maintenance of plant	496,783	647,045	529,581	607,604	442,073	418,060	348,965
Transportation	289,384	395,251	293,594	271,562	264,664	208,206	197,403
Other	-	-	-	-	-	-	4,883
Other expenditures:							
Facilities acquisitions	3,487,168	241,349	104,111	179,494	390,091	2,501,314	231,636
Long-term debt:							
Principal	120,000	115,000	110,000	105,000	100,000	47,985	12,360
Interest and fiscal charges	203,369	100,722	105,673	110,398	115,646	176,478	1,274
AEA flow-through	203,315	178,130	170,406	159,775	141,717	140,879	139,942
Total	<u>\$ 9,382,945</u>	<u>6,314,713</u>	<u>5,373,028</u>	<u>5,211,535</u>	<u>4,996,670</u>	<u>6,914,670</u>	<u>4,218,982</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	\$ 82,739 *
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	<u>10,723</u>
			<u>93,462</u>
 TEAM NUTRITION GRANT	 10.574	 FY 10	 <u>49</u>
 DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I, PART A CLUSTER			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	42,549
TITLE I BASIC LEA GRANTS STABILIZATION	84.389	FY 10	<u>9,406</u>
			<u>51,955</u>
 SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	 84.186	 FY 10	 <u>75</u>
 SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES	 84.323	 FY 10	 <u>1,923</u>
 RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	 84.358	 FY 10	 <u>45,599</u>
 IMPROVING TEACHER QUALITY STATE GRANTS	 84.367	 FY 10	 <u>13,675</u>
 RELATED ACTIVITIES(TITLE VI A)	 84.369	 FY 10	 <u>3,692</u>
 ARRA - STATE FISCAL STABILIZATION FUNDS (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	 84.394	 FY 10	 <u>241,804</u>
 AREA EDUCATION AGENCY 267: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	 84.048	 FY 10	 <u>2,829</u>
 SPECIAL EDUCATION CLUSTER (IDEA):			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 10	25,691
SPECIAL EDUCATION - GRANTS TO STATES (PART B - SECTION 611)	84.391	FY 10	<u>70,247</u>
			<u>95,938</u>

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY OFFICE OF AIR AND RADIATION IOWA DEPARTMENT OF ENVIRONMENTAL PROTECTION AGENCY OFFICE OF AIR AND RADIATION SURVEYS, STUDIES, RESEARCH, INVESTIGATIONS, DEMONSTRATIONS, AND SPECIAL PURPOSE ACTIVITES RELATING TO THE CLEAN AIR ACT (CLEAN SCHOOL BUS PROGRAM)	66.034	FY 10	<u>62</u>
TOTAL			<u>\$ 551,063</u>

* Includes \$20,735 of non-cash rewards

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Martensdale-St. Marys Community School District and is presented in conformity with 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 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 the
Martensdale-St Marys 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 Martensdale-St Marys 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 December 29, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martensdale-St Marys 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 Martensdale-St Marys Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Martensdale-St Marys 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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

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

Compliance and Other Matters

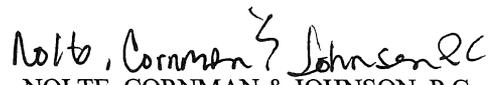
As part of obtaining reasonable assurance about whether Martensdale-St Marys Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which 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.

Martensdale-St Marys 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 Martensdale-St Marys 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 Martensdale-St Marys Community School District and other parties to whom Martensdale-St Marys 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 Martensdale-St Marys 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.

December 29, 2010

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 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
Martensdale-St. Marys Community School District

Compliance

We have audited the compliance of Martensdale-St. Marys 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. Martensdale-St. Marys 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 Martensdale-St. Marys Community School District's management. Our responsibility is to express an opinion on Martensdale-St. Marys Community School District's compliance based on our audit.

We conducted our audit in accordance with U.S. general accepted auditing 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 Martensdale-St. Marys 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 Martensdale-St. Marys Community School District's compliance with those requirements.

In our opinion, Martensdale-St. Marys 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 Martensdale-St. Marys 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 Martensdale-St. Marys 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 the effectiveness of Martensdale-St. Marys 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 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.

A significant deficiency is deficiency, or combination of deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-B-10 and III-C-10 to be significant deficiencies.

Martensdale-St. Marys 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 Martensdale-St. Marys 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 Martensdale-St. Marys Community School District and other parties to whom Martensdale-St. Marys 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.

December 29, 2010

MARTENSDALE-ST. MARYS 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) Significant deficiencies 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 noncompliance which is material to the financial statements.
- (d) Significant deficiencies and material weaknesses in internal control over major programs were 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 did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - Nutrition Cluster:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual programs:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Funds (SFSF) – Education State Grants, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Martensdale-St. Marys Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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

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

Response – We will investigate available alternatives and implement them as soon as possible. The Business Manager reviews monthly reports with the Superintendent’s Secretary.

Conclusion – Response accepted.

II-B-10 Grants - We noted during our audit that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures. The district should monitor timelines for grants to ensure that quarterly reports are filed timely and grant revenues are received.

Response – We will review the Uniform Financial Accounting Manual and work towards better coding of expenditures. Auditors are willing to assist Business Manager with coding and the Business Manager will work with the building secretaries regarding coding for supplies and purchases.

Conclusion – Response accepted.

II-C-10 Employee Purchases From School Vendors - We noted during the audit that within the Enterprise, School Nutrition Fund there were checks from employees submitted to vendors for personal items included on invoices made to the school district.

Recommendation - The District should not allow employees to purchase items and subsequently pay through school vendors’ payments; however, the vendors could set up an employee account for such purchases. When the District pays the vendor, the invoice needs to agree to the amount paid. Any instances of invoices differing from the amount to be paid must be documented and attached to the paid invoice as support for payment.

Response - The District addressed this issue immediately with our staff and checks from employees submitted to vendors for personal items will not be accepted.

Conclusion – Response accepted.

II-D-10 Free and Reduced Lunch Applications - We noted during the audit that one of the free and reduced lunch applications was marked as free and should have been marked as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response – The District will review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District will contact the Department of Education to correct the necessary reports.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.394: ARRA – State Fiscal Stabilization Funds (SFSF) – Education State Grants, Recovery Act.

Federal Award Year: 2010

U.S. Department of Education

Passed through the Iowa Department of Education

CFDA Number 10.553: School Breakfast Program and

CFDA Number 10.555: National School Lunch Program

Federal Award Year: 2010

U.S. Department of Agriculture

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. We noted that cash receipt preparation, the posting of the cash receipts to the cash receipts journal, and bank reconciliations were all done by the same person. In addition, the recording, preparing and signing of checks were all done by the same person.

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

Response – We will investigate available alternatives and implement them as soon as possible. The Business Manager reviews monthly statement with the Superintendent’s Secretary.

Conclusion – Response accepted.

III-B-10 Grants - We noted during our audit that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures. The district should monitor timelines for grants to ensure that quarterly reports are filed timely and grant revenues are received.

Response – We will review the Uniform Financial Accounting Manual and work towards better coding of expenditures. Auditors are willing to assist Business Manager with coding and the Business Manager will work with the building secretaries regarding coding for supplies and purchases.

Conclusion – Response accepted.

III-C-10 Free and Reduced Lunch Applications - We noted during the audit that one of the free and reduced lunch applications was marked as free and should have been marked as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response – The District will review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District will contact the Department of Education to correct the necessary reports.

Conclusion – Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010 exceeded the certified amounts in the other expenditures function.

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

Response – The District will more carefully monitor expenses and modify the budget where appropriate in the future.

Conclusion – Response accepted.

IV-B-10 Questionable Disbursements - We noted during our audit that gift cards were purchased and given to students. 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 reviewed the procedures in awarding incentives and has determined that cash or gift cards will no longer be given to students as incentives or rewards.

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 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 no variances in the basic enrollment data certified to the Department of Education.

- IV-H-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-I-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-J-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-K-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	0
Statewide sales and services tax revenue			309,375
Expenditures/transfers out:			
School infrastructure:			
Other improvements	\$	64,490	
Debt service for school infrastructure:			
General obligation debt		50,000	
Revenue debt		194,885	
			<u>309,375</u>
Ending balance		\$	<u>0</u>

The statewide sales, services and use tax revenue during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 0.42866	\$ 50,000
Physical plant and equipment levy	\$ 0.67000	\$ 76,202