MASON CITY 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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Introductory Section

Board of Education and School District Officials

At June 30, 2010

Name	Title	Term Expires
	(Before September, 2009 Election)	
Board of Education		
Timothy Becker	President	September, 2009
Robert Thoms	Vice President	September, 2011
Michele Appelgate	Member	September, 2009
Gary Hoffman	Member	September, 2009
Darshini Jayawardena	Member	September, 2011
Paula Recinos	Member	September, 2011
Mark Young	Member	September, 2011
	(After September, 2009 Election)	
Timothy Becker	President	September, 2013
Robert Thoms	Vice President	September, 2011
Michele Appelgate	Member	September, 2013
Gary Hoffman	Member	September, 2013
Darshini Jayawardena	Member	September, 2011
Paula Recinos	Member	September, 2011
Mark Young	Member	September, 2011
Officials		
Dr. Anita Micich	Superintendent	Indefinite
Ramona Jeffrey	District Secretary/Treasurer	Indefinite

Financial Section

HOGAN • HANSEN
A Professional Corporation
Certified Public Accountants and Consultants

Independent Auditor's Report

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District, Mason City, 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 the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2011 on our consideration of the Mason City Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for the retiree health plan on pages 4 through 13 and 39 and 40 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. However, 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 the Mason City 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 nine years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 41 through 47, including the schedule of expenditures of federal awards required by the 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. This supplementary information, including the schedule of expenditures of federal awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

Hogan - Hansen

HOGAN - HANSEN

Mason City, Iowa
January 18, 2011

MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $36,223,592 in fiscal 2009 to $37,066,738 in fiscal 2010, while General Fund expenditures decreased from $37,422,314 in fiscal 2009 to $36,788,405 in fiscal 2010. This resulted in an increase of $278,333 in General Fund balance from $3,180,764 in fiscal 2009 to $3,459,097 in fiscal 2010.

- The increase in General Fund revenues of $843,146 was attributable to an increase in ARRA revenue. The decrease in expenditures was due primarily to layoffs, attrition and a reduction in general expenditures overall.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are g*overnment-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.

- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that 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.

Finally, other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various 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

MASON CITY COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT

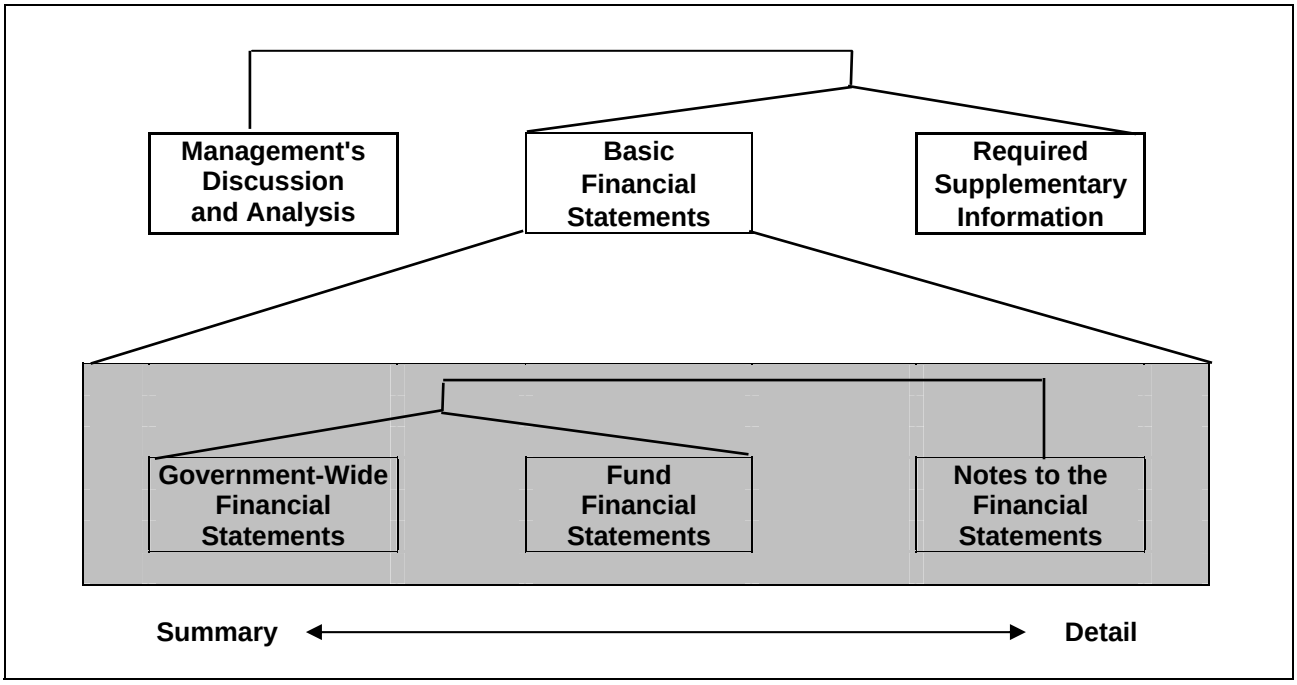

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

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: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenue, expenditures, and changes in fund balances	* Statement of net assets * Statement of revenue, expenses and changes in net assets * Statement of cash flows	* Statement of 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, 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 revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 revenue 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

GOVERNMENT-WIDE STATEMENTS

The government-wide 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 statements report the District's net assets and how they have changed. Net assets equal the difference between the District's assets and liabilities, and 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, respectively.

- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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:

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

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

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

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 statements.

- The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include one Agency Fund.

- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the 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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to June 30, 2009.

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT
CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Current and other assets	$ 49,529,439	$ 45,366,408	$ 893,468	$ 693,586	$ 50,422,907	$ 46,059,994
Capital assets	35,332,303	35,994,503	209,118	213,048	35,541,421	36,207,551
TOTAL ASSETS	**$ 84,861,742**	**$ 81,360,911**	**$ 1,102,586**	**$ 906,634**	**$ 85,964,328**	**$ 82,267,545**
Long-term obligations	$ 12,927,291	$ 15,580,224	$ —	$ —	$ 12,927,291	$ 15,580,224
Other liabilities	22,392,324	20,370,646	40,819	25,336	22,433,143	20,395,982
TOTAL LIABILITIES	**$ 35,319,615**	**$ 35,950,870**	**$ 40,819**	**$ 25,336**	**$ 35,360,434**	**$ 35,976,206**
Net Assets:						
Invested in capital assets, net of related debt	$ 23,207,303	$ 21,144,503	$ 209,118	$ 213,048	$ 23,416,421	$ 21,357,551
Restricted	19,968,961	18,281,221	—	—	19,968,961	18,281,221
Unrestricted	6,365,863	5,984,317	852,649	668,250	7,218,512	6,652,567
TOTAL NET ASSETS	**$ 49,542,127**	**$ 45,410,041**	**$ 1,061,767**	**$ 881,298**	**$ 50,603,894**	**$ 46,291,339**

The District's combined net assets increased 9%, or approximately $4.3 million, over the prior year. The largest portion of the District's net assets are invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately $1.7 million, or 9%, over the prior year. The increase was primarily a result of decreased expenditures in the Special Revenue, Physical Plant and Equipment Levy Fund and in the Capital Projects Fund.

Unrestricted net assets, 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 approximately $566,000, or 9%. This increase in unrestricted net assets was primarily a result of an increase in revenue while maintaining expenses at prior year levels.

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

FIGURE A-4

MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-2010
REVENUES:							
Program Revenues:							
Charges for service	$ 2,319,989	$ 2,060,152	$ 1,054,484	$ 1,053,758	$ 3,374,473	$ 3,113,910	$ 260,563
Operating grants and contributions	6,615,378	5,289,355	1,043,903	944,716	7,659,281	6,234,071	1,425,210
Capital grants and contributions	—	37,750	16,158	—	16,158	37,750	(21,592)
General Revenues:							
Property tax	14,360,783	13,917,909	—	—	14,360,783	13,917,909	442,874
Statewide sales, services and use tax	4,431,750	4,564,766	—	—	4,431,750	4,564,766	(133,016)
Unrestricted state grants	16,377,859	17,233,523	—	—	16,377,859	17,233,523	(855,664)
Unrestricted investment earnings	145,334	394,262	1,715	4,816	147,049	399,078	(252,029)
Other	91,565	137,633	—	—	91,565	137,633	(46,068)
TOTAL REVENUES	**44,342,658**	**43,635,350**	**2,116,260**	**2,003,290**	**46,458,918**	**45,638,640**	**820,278**
PROGRAM EXPENSES:							
Governmental Activities:							
Instruction	27,633,683	27,349,387	—	—	27,633,683	27,349,387	284,296
Support services	10,096,368	10,537,650	—	—	10,096,368	10,537,650	(441,282)
Non-instructional programs	26,285	31,434	1,935,791	1,868,807	1,962,076	1,900,241	61,835
Other expenditures	2,454,236	2,399,192	—	—	2,454,236	2,399,192	55,044
TOTAL EXPENSES	**40,210,572**	**40,317,663**	**1,935,791**	**1,868,807**	**42,146,363**	**42,186,470**	**(40,107)**
CHANGE IN NET ASSETS	**$ 4,132,086**	**$ 3,317,687**	**$ 180,469**	**$ 134,483**	**$ 4,312,555**	**$ 3,452,170**	**$ 860,385**

Property tax, Statewide Sales, Services and Use Tax and unrestricted state grants account for approximately 76% of total revenues. The District's expenses primarily relate to instruction and support services which account for approximately 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were $44,342,658 and expenses were $40,210,572, which amounted to an increase in net assets of $4,132,086. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

FIGURE A-5

MASON CITY COMMUNITY SCHOOL DISTRICT
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES

	Total Cost of Services			Net Cost of Services		
	2010	**2009**	**Change 2009-10**	**2010**	**2009**	**Change 2009-10**
Instruction	$ 27,633,683	$ 27,349,387	1.0 %	$ 20,612,830	$ 21,710,528	(5.1)%
Support services	10,096,368	10,537,650	(4.2)%	10,009,648	10,383,511	(3.6)%
Non-instructional programs	26,285	31,434	(16.4)%	26,285	31,434	(16.4)%
Other expenditures	2,454,236	2,399,192	2.3 %	626,442	804,933	(22.2)%
TOTALS	**$ 40,210,572**	**$ 40,317,663**	**(0.3)%**	**$ 31,275,205**	**$ 32,930,406**	**(5.0)%**

- The cost financed by users of the District's programs was $2,319,989.
- Federal and state governments subsidized certain programs with operating and capital grants and contributions totaling $6,615,378.
- The net cost of governmental activities was financed with $18,792,533 in property and other taxes, $16,377,859 in state foundation aid and $145,334 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $2,116,260 and expenses were $1,935,791. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The District uses School Dining Services, which is a web-based software program to facilitate the District's hot lunch program. Parents are able to deposit money into their child's hot lunch account through Payschools, which is also a web-based program. Parents may also print out a record of exactly what their child eats everyday. The price of meals was increased in school year 2009-2010 by $0.15 per meal in elementary and $0.30 per meal at the secondary level.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Individual Fund Analysis

As previously noted, the Mason City 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 the District completed the year, its governmental funds reported combined fund balances of $22,751,879, well above last year's ending fund balances of $21,432,643. The main reason for

the increase in combined fund balances in 2010 was due to the Statewide Sales and Services Tax that is deposited in the Capital Projects Fund. The majority of the expenses in the Capital Projects Fund were for transfers to the Debt Service Fund to pay for the principal and interest payments on the Harding/Hoover construction and the Roosevelt campus. All of the construction costs of Roosevelt Elementary and Roosevelt Middle School were paid in 2007.

Governmental Fund Highlights

The General Fund expenditures for negotiated salaries decreased by $123,433 from 2009 to 2010; whereas, the benefits decreased by $68,489 from 2009 to 2010. Salaries and benefits make up approximately 83% of the General Fund budget. The decrease in salaries and benefits was attributed to layoffs and attrition.

On March 4, 2003, the taxpayers of Cerro Gordo County passed a one-cent local option sales tax to be used for school infrastructure. The first priority of the Mason City Community School's Board of Education was to reduce the bonded indebtedness. In order to do this, the interest and principal payments on the Harding/Hoover construction project are funded with transfers from the Capital Projects Fund where the one-cent local option sales tax monies are deposited. Also, the Iowa legislature in March, 2009 enacted the LOSST program as permanent throughout the state, rather than individually by county approval and is now referred to as SAFE tax. SAFE is extended to June, 2029 and will bring more stability and open other financing options to the District. As of July 1, 2013, all of the District's bonded indebtedness will be paid off. At that point in time, the Mason City Community School District will be part of the statewide SAFE revenue which will mean the District's revenue will decrease by approximately $500 per student.

The Board of Education's decision to save $300,000 a year from the PPEL Fund for long-term investments and major projects has resulted in a savings set aside of $2,395,064 for school years 2002-2009 as of June 30, 2010.

The District received $1,000,000 in Qualified Zone Academy Bonds (QZAB) to remodel ten academic classrooms at Roosevelt Elementary School. The Local Option Sales and Services Tax will also be used to repay the principal on the QZAB. The Federal Taxpayer Relief Act of 1997 created the Qualified Zone Academy Bond Program (QZAB) to provide low or no interest financing for renovating school buildings and purchasing equipment. New construction does not apply under this program.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $881,298 in 2009 to $1,061,767 in 2010, an increase of $180,469, or approximately 20%. Total revenues in 2010 were $2,116,260 which is an increase of $112,970 from $2,003,290 in 2009. Total expenses for 2010 were $1,935,791 and in 2009 they were $1,868,807 for an increase of $66,984, or approximately 4%. The increase in expenditures was mainly due to increased salary and benefits and overall increase in food costs.

BUDGETARY HIGHLIGHTS

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 its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were $548,432 less than the total budgeted receipts; a variance of 1.2%. The most significant changes were due to an across-the-board cut of 10% or $2,021,338 in state foundation aid and categorical funds during the school year, $133,016 less in state sales tax and due to the economic downturn, earnings on investments were $248,928 less.

Total expenditures were less than budgeted due primarily to budgeting for refinancing of the general obligation debt which didn't take place until fiscal year 2010-2011. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year. The District's total actual expenditures were $48,189,213 compared to the budget amount of $52,358,167 or a difference of $4,168,954, which is an 8% variance. The majority of the variance in expenditures is due to the delayed refinancing of the general obligation debt to fiscal year 2010-2011 rather than 2009-2010 where it had been budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested $35,541,421, 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). Depreciation expense was $1,434,159 for Governmental Activities and $33,957 for Business-Type Activities. Additional information about the District's capital assets is presented in Note 5 to the financial statements.

Governmental Activities account for $35,332,303 of the District's capital assets with the remainder of $209,118 in the Business-Type Activities.

FIGURE A-6

MASON CITY COMMUNITY SCHOOL DISTRICT
CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2010	2009	2010	2009	2010	2009
Land	$ 408,722	$ 408,722	$ —	$ —	$ 408,722	$ 408,722
Construction in progress	259,257	—	—	—	259,257	—
Buildings and improvements	34,175,209	34,958,105	—	—	34,175,209	34,958,105
Furniture and equipment	489,115	627,676	209,118	213,048	698,233	840,724
TOTALS	**$ 35,332,303**	**$ 35,994,503**	**$ 209,118**	**$ 213,048**	**$ 35,541,421**	**$ 36,207,551**

Long-Term Debt

At June 30, 2010, the District had $2,415,000 in general obligation bonds outstanding and $9,710,000 in revenue bonds outstanding. The District retired debt in the amount of $5,955,000 and issued general obligation bonds in the amount of $3,230,000 during the year ended June 30, 2010. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

FIGURE A-7

MASON CITY COMMUNITY SCHOOL DISTRICT
OUTSTANDING LONG-TERM OBLIGATIONS

	Total District June 30, 2010	Total District June 30, 2009	Debt Retired June 30, 2010
General obligation bonds	$ 2,415,000	$ 3,175,000	$ 3,990,000
Revenue bonds	8,710,000	10,675,000	1,965,000
Qualified Zone Academy Bonds	1,000,000	1,000,000	—
TOTAL BONDS	**$ 12,125,000**	**$ 14,850,000**	**$ 5,955,000**

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The District has experienced declining enrollment for the past 13 years. The District averaged a 75 student decline in student enrollment per school year. For the first time in school year 2003-2004, the District levied for the budget guarantee. The District was not on the budget guarantee in school year 2008-2009 but was on it in school year 2006-2007 and anticipates being on it in school year 2010-2011.

In school year 2008-2009, the District was to receive new money of $611,339 but instead received a 1.5% across-the-board cut of $316,518. For school year 2009-2010, the District received an 11.5% across-the-board cut. In the future, labor contract settlements will have to be funded by cash reserves and this will have an adverse effect on the District's General Fund budget and related fund balance.

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, contract Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Assets

At June 30, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and investments	$ 30,287,488	$ 829,029	$ 31,116,517
Receivables			
Property Taxes, Net of Allowance			
Current year delinquent	199,672	—	199,672
Succeeding year	16,028,396	—	16,028,396
Accrued interest	5,925	—	5,925
Due from other governments	2,255,140	—	2,255,140
Due from other funds	—	1,359	1,359
Interfund loan to agency	150,000	—	150,000
Other	89,211	27	89,238
Inventories and prepaid expenses	31,396	63,053	94,449
Capital assets, net of accumulated depreciation	35,332,303	209,118	35,541,421
Restricted Assets			
Cash held by agent	482,211	—	482,211
Total Assets	**$ 84,861,742**	**$ 1,102,586**	**$ 85,964,328**
Liabilities			
Accounts payable	$ 866,248	$ 1,994	$ 868,242
Salaries and benefits payable	4,080,962	38,821	4,119,783
Due to other funds	150,558	4	150,562
Accrued interest payable	226,529	—	226,529
Deferred Revenue			
Succeeding year property taxes	16,028,396	—	16,028,396
Other	581,667	—	581,667
Provision for self-insurance claims	457,964	—	457,964
Long-Term Liabilities			
Portion Due Within One Year			
General obligation bonds	790,000	—	790,000
Revenue bonds	2,040,000	—	2,040,000
Compensated absences	171,484	—	171,484
Early retirement	471,407	—	471,407
Portion Due After One Year			
General obligation bonds	1,625,000	—	1,625,000
Revenue bonds	6,670,000	—	6,670,000
Qualified Zone Academy Bonds	517,789	—	517,789
Payable from Restricted Assets			
Qualified Zone Academy Bonds	482,211	—	482,211
Net OPEB liability	159,400	—	159,400
Total Liabilities	**35,319,615**	**40,819**	**35,360,434**
Net Assets			
Invested in capital assets, net of related debt	23,207,303	209,118	23,416,421
Restricted for			
Categorical funding	248,638	—	248,638
Adopt-a-school	44,710	—	44,710
Debt service	3,836,064	—	3,836,064
Management levy	2,297,714	—	2,297,714
Property, plant and equipment levy	4,068,082	—	4,068,082
Student activities	249,727	—	249,727
Capital projects	8,499,674	—	8,499,674
Other purposes	401,786	—	401,786
Other special revenue purposes	322,566	—	322,566
Unrestricted	6,365,863	852,649	7,218,512
Total Net Assets	**49,542,127**	**1,061,767**	**50,603,894**
Total Liabilities and Net Assets	**$ 84,861,742**	**$ 1,102,586**	**$ 85,964,328**

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenue Charges for Services
Governmental Activities		
Instruction		
Regular instruction	$ 15,545,179	$ 1,201,936
Special instruction	8,075,137	28,258
Vocational instruction	708,473	—
Co-curricular instruction	3,304,894	1,003,075
Total Instruction	27,633,683	2,233,269
Support Services		
Student services	1,016,995	—
Instructional staff services	768,798	—
Administration services	3,504,823	33,764
Operation and maintenance of plant services	2,923,112	—
Transportation services	1,277,825	52,956
Central services	130,795	—
Community services	21,712	—
Other support services	452,308	—
Total Support Services	10,096,368	86,720
Noninstructional Programs		
Scholarships	26,285	—
Other Expenditures		
Facilities acquisition	279,371	—
Long-term debt interest	331,001	—
AEA flow through	1,827,794	—
Depreciation - unallocated	16,070	—
Total Other Expenditures	2,454,236	—
Total Governmental Activities	**40,210,572**	**2,319,989**
Business-Type Activities		
Noninstructional Programs		
Nutrition services	**1,935,791**	**1,054,484**
Total	**$ 42,146,363**	**$ 3,374,473**
General Revenue		
Property Taxes Levied for		
General purposes		
Management		
PPEL		
Statewide sales, services and use tax		
Unrestricted state grants		
Other		
Unrestricted investment earnings		
Total General Revenue		
Change in Net Assets		
Net Assets - Beginning of Year		
Net Assets - End of Year		

See accompanying notes to the financial statements.

Program Revenue		Net (Expenses), Revenue and Changes in Net Assets		
Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
$ 4,767,797	$ —	$ (9,575,446)	$ —	$ (9,575,446)
19,787	—	(8,027,092)	—	(8,027,092)
—	—	(708,473)	—	(708,473)
—	—	(2,301,819)	—	(2,301,819)
4,787,584	—	(20,612,830)	—	(20,612,830)
—	—	(1,016,995)	—	(1,016,995)
—	—	(768,798)	—	(768,798)
—	—	(3,471,059)	—	(3,471,059)
—	—	(2,923,112)	—	(2,923,112)
—	—	(1,224,869)	—	(1,224,869)
—	—	(130,795)	—	(130,795)
—	—	(21,712)	—	(21,712)
—	—	(452,308)	—	(452,308)
—	—	(10,009,648)	—	(10,009,648)
—	—	(26,285)	—	(26,285)
—	—	(279,371)	—	(279,371)
—	—	(331,001)	—	(331,001)
1,827,794	—	—	—	—
—	—	(16,070)	—	(16,070)
1,827,794	—	(626,442)	—	(626,442)
6,615,378	**—**	**(31,275,205)**	**—**	**(31,275,205)**
1,043,903	**16,158**	**—**	**178,754**	**178,754**
$ 7,659,281	**$ 16,158**	**(31,275,205)**	**178,754**	**(31,096,451)**
		12,702,852	—	12,702,852
		1,298,216	—	1,298,216
		359,715	—	359,715
		4,431,750	—	4,431,750
		16,377,859	—	16,377,859
		91,565	—	91,565
		145,334	1,715	147,049
		35,407,291	**1,715**	**35,409,006**
		4,132,086	**180,469**	**4,312,555**
		45,410,041	881,298	46,291,339
		$ 49,542,127	**$ 1,061,767**	**$ 50,603,894**

Balance Sheet - Governmental Funds

At June 30, 2010

	General	PPEL	Debt Service	Capital Projects	Nonmajor Govern-mental Funds	Total Govern-mental Funds
Assets						
Cash and pooled investments	$ 7,350,734	$ 4,127,008	$ 4,062,593	$ 7,298,208	$ 2,918,505	$ 25,757,048
Receivables						
Property Taxes, Net						
Current year delinquent	205,631	5,727	—	—	19,615	230,973
Succeeding year	14,863,993	364,399	—	—	800,004	16,028,396
Accrued interest	—	—	—	5,925	—	5,925
Due from other funds	13	—	—	—	73,986	73,999
Due from other governments	1,436,297	—	—	818,843	—	2,255,140
Interfund loan to agency	—	—	—	—	150,000	150,000
Other	2,833	4,816	—	—	27,406	35,055
Inventories and prepaid items	31,396	—	—	—	—	31,396
Restricted Assets						
Cash held by agent	—	—	—	482,211	—	482,211
Total Assets	**$ 23,890,897**	**$ 4,501,950**	**$ 4,062,593**	**$ 8,605,187**	**$ 3,989,516**	**$ 45,050,143**
Liabilities and Fund Balances						
Liabilities						
Accounts payable	$ 648,193	$ 68,666	$ —	$ 105,513	$ 43,876	$ 866,248
Salaries and benefits payable	4,071,227	—	—	—	9,735	4,080,962
Due to other funds	237,780	—	—	—	503	238,283
Early retirement payable	—	—	—	—	471,407	471,407
Deferred Revenue						
Succeeding year property taxes	14,863,993	364,399	—	—	800,004	16,028,396
Other	610,607	803	—	—	1,558	612,968
Total Liabilities	**20,431,800**	**433,868**	**—**	**105,513**	**1,327,083**	**22,298,264**
Fund Balances						
Reserved for						
Inventories and prepaid items	31,396	—	—	—	—	31,396
Categorical funding	248,638	—	—	—	—	248,638
Scholarships	—	—	—	—	109,691	109,691
Debt service	—	—	1,792,500	—	—	1,792,500
Unreserved Reported in						
General fund	3,179,063	—	—	—	—	3,179,063
Special revenue funds	—	4,068,082	—	—	2,552,742	6,620,824
Debt service fund	—	—	2,270,093	—	—	2,270,093
Capital projects fund	—	—	—	8,499,674	—	8,499,674
Total Fund Balances	**3,459,097**	**4,068,082**	**4,062,593**	**8,499,674**	**2,662,433**	**22,751,879**
Total Liabilities and Fund Balances	**$ 23,890,897**	**$ 4,501,950**	**$ 4,062,593**	**$ 8,605,187**	**$ 3,989,516**	**$ 45,050,143**

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

At June 30, 2010

Total Fund Balances for Governmental Funds (Page 16).....		**$ 22,751,879**
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		35,332,303
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		4,140,358
Long-term liabilities, including bonds payable, accrued interest and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Accrued interest payable.....	$ (226,529)	
Bonds payable	(12,125,000)	
Compensated absences	(171,484)	
Net OPEB liability.....	(159,400)	(12,682,413)
Net Assets of Governmental Activities (Page 14)		**$ 49,542,127**

See accompanying notes to the financial statements.

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2010

	General	PPEL	Debt Service	Capital Projects	Nonmajor Govern-mental Funds	Total Govern-mental Funds
Revenue						
Local Sources						
Local tax	$ 12,702,852	$ 359,715	$ —	$ 4,431,750	$ 1,298,216	$ 18,792,533
Tuition	969,895	—	—	—	—	969,895
Other	372,280	66,885	10,223	57,998	1,049,773	1,557,159
State sources	18,897,273	289	—	—	1,071	18,898,633
Federal sources	4,124,438	—	—	—	—	4,124,438
Total Revenue	**37,066,738**	**426,889**	**10,223**	**4,489,748**	**2,349,060**	**44,342,658**
Expenditures						
Current						
Instruction						
Regular instruction	14,229,091	—	—	—	338,876	14,567,967
Special instruction	8,173,084	—	—	—	—	8,173,084
Vocational instruction	719,311	—	—	—	—	719,311
Co-curricular instruction	2,299,901	—	—	—	971,760	3,271,661
Total Instruction	25,421,387	—	—	—	1,310,636	26,732,023
Support Services						
Student	1,033,000	—	—	—	—	1,033,000
Instructional staff	781,290	—	—	—	—	781,290
Administration	3,515,080	—	—	—	—	3,515,080
Operation and maintenance of plant	2,923,554	20,030	—	—	—	2,943,584
Transportation	1,263,411	—	—	—	—	1,263,411
Central	1,155	—	—	—	132,531	133,686
Community	21,734	—	—	—	—	21,734
Other support	—	—	—	—	452,308	452,308
Total Support Services	9,539,224	20,030	—	—	584,839	10,144,093
Noninstructional Programs						
Scholarships	—	—	—	—	26,285	26,285
Other Expenditures						
Facilities acquisition	—	879,250	—	117,513	—	996,763
Long-Term Debt						
Principal	—	—	5,955,000	—	—	5,955,000
Interest and fiscal charges	—	—	571,464	—	—	571,464
AEA flowthrough	1,827,794	—	—	—	—	1,827,794
Total Other Expenditures	1,827,794	879,250	6,526,464	117,513	—	9,351,021
Total Expenditures	**36,788,405**	**899,280**	**6,526,464**	**117,513**	**1,921,760**	**46,253,422**
Revenue Over (Under) Expenditures	**278,333**	**(472,391)**	**(6,516,241)**	**4,372,235**	**427,300**	**(1,910,764)**
Other Financing Sources (Uses)						
General obligation bonds issued	—	—	3,230,000	—	—	3,230,000
Operating transfers in	—	—	3,318,875	—	—	3,318,875
Operating transfers out	—	—	—	(3,318,875)	—	(3,318,875)
Total Other Financing Sources (Uses)	**—**	**—**	**6,548,875**	**(3,318,875)**	**—**	**3,230,000**
Net Change in Fund Balances	**278,333**	**(472,391)**	**32,634**	**1,053,360**	**427,300**	**1,319,236**
Fund Balances - Beginning of Year	3,180,764	4,540,473	4,029,959	7,446,314	2,235,133	21,432,643
Fund Balances - End of Year	**$ 3,459,097**	**$ 4,068,082**	**$ 4,062,593**	**$ 8,499,674**	**$ 2,662,433**	**$ 22,751,879**

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

Year Ended June 30, 2010

Change in Fund Balances - Total Governmental Funds (Page 18)		**$ 1,319,236**
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense for the year are as follows:		
Capital outlays	$ 784,029	
Depreciation expense	(1,434,159)	
Net book value of assets disposed	(12,069)	(662,199)
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities.		564,622
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. Current year repayments exceeded issues, as follows:		
Issued	$ (3,230,000)	
Repaid	5,955,000	2,725,000
Premium on bonds amortized during the year did not provide current financial resources to governmental funds but it decreases liabilities in the statement of net assets		188,740
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.		51,722
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Compensated absences.	$ 16,365	
Other post-employment benefits	(71,400)	(55,035)
Change in Net Assets of Governmental Activities (Page 15)		**$ 4,132,086**

See accompanying notes to the financial statements.

Statement of Net Assets

At June 30, 2010

	Business-Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Assets		
Cash and cash equivalents	$ 829,029	$ 4,530,440
Receivables		
Accounts	27	54,156
Interfund	1,359	13,726
Inventories and prepaid expenses	63,053	—
Furniture and equipment	784,198	—
Less accumulated depreciation	(575,080)	—
Total Assets	**$ 1,102,586**	**$ 4,598,322**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 1,994	$ 457,964
Salaries and benefits payable	38,821	—
Interfund payable	4	—
Total Liabilities	**40,819**	**457,964**
Net Assets		
Invested in capital assets, net of related debt	209,118	—
Unrestricted	852,649	4,140,358
Total Net Assets	**1,061,767**	**4,140,358**
Total Liabilities and Net Assets	**$ 1,102,586**	**$ 4,598,322**

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Operating Revenue		
Local Sources		
Charges for service	$ 1,050,532	$ —
Other receipts	3,952	—
Self-insurance contributions	—	4,647,026
Total Operating Revenue	**1,054,484**	**4,647,026**
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	862,795	—
Purchased services	1,036,206	—
Other	2,833	—
Depreciation	33,957	—
Self-insurance claims and fees	—	4,100,051
Total Operating Expenses	**1,935,791**	**4,100,051**
Income (Loss) From Operations	**(881,307)**	**546,975**
Nonoperating Revenue		
State sources	18,247	—
Federal sources	1,041,814	—
Interest on investments	1,715	17,647
Total Nonoperating Revenue	**1,061,776**	**17,647**
Change in Net Assets	**180,469**	**564,622**
Net Assets - Beginning of Year	881,298	3,575,736
Net Assets - End of Year	**$ 1,061,767**	**$ 4,140,358**

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2010

	Business-Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts	$ 1,053,624	$ —
Cash received from assessments made to other funds	—	4,641,659
Cash payments to employees for services	(847,686)	—
Cash payments for insurance claims	—	(4,102,134)
Cash payments to suppliers for goods and services	(909,127)	—
Net Cash Provided by (Used in) Operating Activities	**(703,189)**	**539,525**
Cash Flows Provided by Noncapital Financing Activities		
State grants received	18,247	—
Federal grants received	922,906	—
Net Cash Provided by Noncapital Financing Activities	**941,153**	**—**
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	**(30,027)**	**—**
Cash Flows From Investing Activities		
Interest on investments	**1,715**	**17,647**
Net Increase in Cash and Cash Equivalents	**209,652**	**557,172**
Cash and Cash Equivalents, at Beginning of Year	619,377	3,973,268
Cash and Cash Equivalents at End of Year	**$ 829,029**	**$ 4,530,440**
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations	$ (881,307)	$ 546,975
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used	127,026	—
Depreciation	33,957	—
Changes in Assets and Liabilities		
Increase in receivables	(860)	(5,367)
Decrease in inventories and prepaid items	2,515	—
Increase (decrease) in accounts payable and provision for self-insurance claims	371	(2,083)
Increase in salaries and benefits payable	15,109	—
Net Cash Provided by (Used in) Operating Activities	**$ (703,189)**	**$ 539,525**

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2010, the District received $118,908 of federal commodities.

See accompanying notes to the financial statements.

Statement of Fiduciary Net Assets - Fiduciary Fund

At June 30, 2010

	Agency
Assets	
Cash and investments	$ 44,636
Due from other funds	162,938
Total Assets	**$ 207,574**
Liabilities	
Accounts payable	$ 53
Due to others	43,786
Due to other funds	13,735
Interfund loan	150,000
Total Liabilities	**$ 207,574**

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

The Mason City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

For financial reporting purposes, the Mason City 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 Mason City Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all 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 revenue, 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 that are attributed 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 that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

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

(1) Summary of Significant Accounting Policies

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 had the following major governmental funds:

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

The PPEL Fund (Physical Plant and Equipment Levy) is used to account for all revenue derived from a specific levy which is required by law to be accounted for in a separate fund.

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the Enterprise - School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded health insurance plan operated 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 Agency Fund used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the “economic resources measurement focus” and the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end or if reimbursable grant revenue is spent in the current fiscal year.

(1) Summary of Significant Accounting Policies

Property tax, intergovernmental revenue (shared revenue, 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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Assets, Liabilities and Fund Equity

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

Cash, Investments and Cash Equivalents
The cash balances of most District funds are invested. The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of one year or less from the date of acquisition.

Investments are stated at fair value which approximates cost except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized 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, have a maturity date no longer than three months.

(1) Summary of Significant Accounting Policies

Property Taxes Receivable
Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes 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 taxes receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

Food and Supplies Inventories
Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2010, government commodities valued at $34,186 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets
Capital assets, which include property, furniture 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 value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. The District did not have any intangible assets at June 30, 2010. 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.

Land	$ 2,000
Buildings	2,000
Improvements other than buildings	2,000
Intangibles	100,000
Furniture and Equipment	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000
Vehicles	2,000

(1) Summary of Significant Accounting Policies

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings	50 Years
Improvements other than buildings	25 Years
Technology equipment	5 Years
Other furniture and equipment	10 Years
Vehicles	8 Years
Intangibles	5 Years

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

Deferred Revenue
Although certain revenue is measurable, it is 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 taxes receivable and other receivables not collected within 60 days after year end.

Deferred revenue on the statement of net assets consists primarily of succeeding year property taxes receivable that will not be recognized as revenue until the year for which it is levied.

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

Long-Term Obligations
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.

(1) Summary of Significant Accounting Policies

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements in other expenditures program functional area exceeded the amounts budgeted.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

The District's deposits in banks 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 improvements certificates of a drainage district.

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

The District's investments at June 30, 2010 were as follows:

Type	Amortized Cost
Iowa Schools Joint Investment Trust - Diversified Portfolio.....	**$ 5,967**

The District's investment in the Iowa Schools Joint Investment Trust is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2010.

(3) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2010 are as follows:

Receivable Fund	Payable Fund	Amount
General	Enterprise	
	School Nutrition	$ 4
	Agency	9
		13
Internal Service	Agency	13,726
Enterprise		
School Nutrition	General	856
	Special Revenue	
	Student Activities	503
		1,359
Special Revenue		
Student Activities	General	73,986
Agency	General	162,938
Total		**$ 252,022**

(4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	**$ 3,318,875**

(5) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	$ 408,722	$ —	$ —	$ 408,722
Construction in progress	—	708,192	448,935	259,257
Total Capital Assets Not Being Depreciated	408,722	708,192	448,935	667,979
Capital Assets Being Depreciated				
Buildings and improvements	51,573,044	458,135	—	52,031,179
Furniture and equipment	3,014,140	66,636	107,706	2,973,070
Total Capital Assets Being Depreciated	54,587,184	524,771	107,706	55,004,249
Less Accumulated Depreciation for				
Buildings and improvements	16,614,939	1,241,031	—	17,855,970
Furniture and equipment	2,386,464	193,128	95,637	2,483,955
Total Accumulated Depreciation	19,001,403	1,434,159	95,637	20,339,925
Net Total Capital Assets Being Depreciated	35,585,781	(909,388)	12,069	34,664,324
Net Governmental Activities Capital Assets	**$ 35,994,503**	**$ (201,196)**	**$ 461,004**	**$ 35,332,303**
Business-Type Activities				
Furniture and equipment	$ 754,170	$ 30,027	$ —	$ 784,197
Less accumulated depreciation	541,122	33,957	—	575,079
Net Business-Type Activities Capital Assets	**$ 213,048**	**$ (3,930)**	**$ —**	**$ 209,118**

Depreciation expense was charged as follows:

Governmental Activities	
Instruction	
Regular	$ 1,208,670
Special	17,471
Other	68,708
Support Services	
Administration	46,671
Operation and maintenance of plant	60,610
Transportation	15,959
	1,418,089
Unallocated depreciation	16,070
Total Governmental Activities Depreciation Expense	**$ 1,434,159**
Business-Type Activities	
School Nutrition	**$ 33,957**

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds....	$ 3,175,000	$ 3,230,000	$ 3,990,000	$ 2,415,000	$ 790,000
Revenue bonds	11,675,000	—	1,965,000	9,710,000	2,040,000
Compensated absences.....	187,849	171,484	187,849	171,484	171,484
Early retirement benefits.....	265,635	471,407	265,635	471,407	471,407
Net OPEB liability	88,000	71,400	—	159,400	—
Total.....	**$ 15,391,484**	**$ 3,944,291**	**$ 6,408,484**	**$ 12,927,291**	**$ 3,472,891**

General Obligation Bonds Payable
At June 30, 2010, the District's general obligation bond indebtedness was as follows:

	Bonds Issued July 7, 2009			
Year Ending June 30,	**Interest Rates**	**Principal**	**Interest**	**Total**
2011.....	1.50%	$ 790,000	$ 43,900	$ 833,900
2012.....	1.80	825,000	32,050	857,050
02013.....	2.15	800,000	17,200	817,200
Total.....		**$ 2,415,000**	**$ 93,150**	**$ 2,508,150**

Revenue Bonds Payable
At June 30, 2010, the District's local option sales and service tax revenue bonded indebtedness was as follows:

	LOSST Bonds Issued July 1, 2005			QZAB Bonds Issued Nov. 22, 2006			Total		
	Interest Rates	**Principal**	**Interest**	**Interest Rates**	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2011	5.00%	$ 2,040,000	$ 384,500	0%	$ —	$ —	$ 2,040,000	$ 384,500	$ 2,424,500
2012	5.00	2,125,000	280,375	0	—	—	2,125,000	280,375	2,405,375
2013	5.00	2,220,000	171,750	0	1,000,000	—	3,220,000	171,750	3,391,750
2014	5.00	2,325,000	58,125	0	—	—	2,325,000	58,125	2,383,125
Total		**$ 8,710,000**	**$ 894,750**		**$ 1,000,000**	**$ —**	**$ 9,710,000**	**$ 894,750**	**$ 10,604,750**

The District has pledged future statewide sales, services and use tax revenue to repay revenue bonds issued July 1, 2005 and November 22, 2006. Total principal and interest remaining to be paid on the bonds is $10,604,750. For the current year, principal and interest paid and total revenue was $2,449,625 and $4,431,750, respectively.

(6) Long-Term Liabilities

The local option sales, services and use tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales, services and use tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

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

1. All proceeds from the local option sales and services tax shall be placed in a revenue fund.

2. Monies in the revenue fund shall be disbursed to make deposits into a sinking fund to pay the principal and interest requirements of the revenue bonds for the fiscal year.

3. Monies in the revenue fund shall next be disbursed to a reserve fund. The required amount is the lesser of the sum of 10% of the stated principal amount of the bonds; 125% of the average annual debt service on the bonds; and the maximum annual debt service on the bonds.

4. Any monies remaining in the revenue fund after the required transfers to the sinking fund and the reserve fund may be transferred to the project fund and expended for the purposes of issuance.

The District was in compliance with all of the provisions for the year ended June 30, 2010.

The qualified zone academy bonds (QZABs) were issued November 22, 2006 for the purpose of equipping, rehabilitation and repair of Roosevelt Elementary School. The bonds were payable solely from the proceeds of the local option sales and services tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The QZABs were issued at 0% interest. A tax credit rate of 5.57% entitles an eligible taxpayer who owns the bond on each credit allowance date, a federal income tax credit.

The resolution providing for the issuance of the QZABs includes the following provisions:

1. All proceeds from the local option sales and services tax shall be placed in a special irrevocable trust fund (revenue fund).

2. Annual sinking fund deposits shall be made to an escrow fund. An escrow fund has been established to provide for the payment of the bonds at maturity and all annual sinking fund payments must be invested in qualified investments.

3 The QZABs are not subject to call prior to maturity.

Interfund Loan

During the year ended June 30, 2010, the Board approved an interfund loan from the management fund to the agency fund in the amount of $150,000 including interest at 0.35% due upon receipt of Perkins Grant money.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.3% of their annual salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were $1,549,758, $1,566,099 and $1,316,758, respectively, equal to the required contributions for each year.

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District’s contingent liability for employee sick leave at June 30, 2010 was approximately $10,500,000.

(9) Risk Management

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

(10) Area Education Agency Support

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 $1,827,794 for the year ended June 30, 2010, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to $50,000 per covered individual. Any amount in excess of $50,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately $3,700,000 for the year ended June 30, 2010.

(11) Employee Health Care Plan

The District has included $457,964 in its June 30, 2010 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2010:

Estimated cost incurred but not claimed - June 30, 2009	$ 457,964
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2010	3,660,105
Claims paid during the year ended June 30, 2010	3,660,105
Estimated Costs Incurred But Not Claimed - June 30, 2010	**$ 457,964**

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service at June 30, 2010 was as follows:

Administrators	$ 900
Teachers/Nurse	325
Custodian	225
Secretary	200
Para-Professional/Food Service Workers	150

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2010 totaled $471,407. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the Special Revenue Fund.

(13) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 515 active and 49 retired members in the plan. Employees must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield: Alliance Select. The dental benefit is administered by Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit.

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 of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, 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 June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	$ 230,000
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	3,400
Annual OPEB Cost (Expense)	237,400
Contributions made	(166,000)
Increase in Net OPEB Obligation	71,400
Net OPEB Obligation - Beginning of Year	88,000
Net OPEB Obligation - End of Year	**$ 159,400**

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plan's actual contributions for the year ended June 30, 2010.

For the fiscal year 2010, the District contributed $166,000 to the medical plan.

(13) Other Postemployment Benefits (OPEB)

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	$ 237,400	69.9%	$ 159,400

Funded Status and Funding Progress
As of July 1, 2008, the most recent actuarial valuation date for the period of July 1, 2009 through June 30, 2010, the actuarial accrued liability was $2,244,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $2,244,000. The covered payroll (annual payroll of active employees covered by the plan) was $20,000,000 and the ratio of the UAAL to the covered payroll was 11.2%. 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 healthcare 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 that are 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, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% 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 by 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 Valuation Report as of June 30, 2007 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are $649 per month for retirees less than 65 and $339 per month for retirees who have attained age 65. 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.

(14) Operating Lease

The District leases several office copiers under an operating lease expiring in 2013.

The following is a schedule by years of future minimum lease payments required under the operating lease that has initial or remaining noncancelable lease terms in excess of one year:

Year Ending June 30,	
2011	$ 37,428
2012	37,428
2013	9,357
Total Minimum Payments Required	**$ 84,213**

Rental expense for all operating leases was $28,071 for the year ended June 30, 2010.

(15) Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

Program	**Amount**
Limited English proficiency	$ 23,333
Statewide voluntary four-year-old preschool program	122,456
Gifted and talented program	9,047
Education quality, professional development	72,858
Beginning teacher mentoring and induction	2,924
Beginning administrator mentoring and induction	1,464
Nonpublic textbook services	16,556
	$ 248,638

(16) Subsequent Events

Subsequent to June 30, 2010, the Board approved several construction bids for the John Adams Middle School and Mason City High School renovation project for approximately $5.3 million. On July 1, 2010, the District issued $14,540,000 in School Infrastructure Sales, Services and Use Tax Revenue Bonds. In addition, on July 28, 2010, the District issued $5,845,000 of School Infrastructure Sales, Services and Use Tax Revenue Refunding Bonds. The proceeds from this issue were used to refund bonds outstanding at June 30, 2010.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2010

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total	Original and Final Budget	Over (Under) Budget
Revenue					
Local sources	$ 21,319,587	$ 1,056,199	$ 22,375,786	$ 21,882,023	$ 493,763
State sources	18,898,633	18,247	18,916,880	23,150,327	(4,233,447)
Federal sources	4,124,438	1,041,814	5,166,252	1,975,000	3,191,252
Total Revenue	**44,342,658**	**2,116,260**	**46,458,918**	**47,007,350**	**(548,432)**
Expenditures					
Instruction	26,732,023	—	26,732,023	29,200,000	(2,467,977)
Support services	10,144,093	—	10,144,093	12,585,000	(2,440,907)
Noninstructional programs	26,285	1,935,791	1,962,076	2,237,000	(274,924)
Other expenditures	9,351,021	—	9,351,021	8,336,167	1,014,854
Total Expenditures	**46,253,422**	**1,935,791**	**48,189,213**	**52,358,167**	**(4,168,954)**
Excess (Deficiency) of Revenue Over (Under) Expenditures	**(1,910,764)**	**180,469**	**(1,730,295)**	**(5,350,817)**	**3,620,522**
Other financing sources, net	3,230,000	—	3,230,000	(28,113)	3,258,113
Excess of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses	**1,319,236**	**180,469**	**1,499,705**	**(5,378,930)**	**6,878,635**
Balance - Beginning of Year	21,432,643	881,298	22,313,941	19,525,061	2,788,880
Balance - End of Year	**$ 22,751,879**	**$ 1,061,767**	**$ 23,813,646**	**$ 14,146,131**	**$ 9,667,515**

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 and statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

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

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

Schedule of Funding Progress for the Retiree Health Plan

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	$ —	$ 2,244,000	$ 2,244,000	0.0%	$ 19,903,966	11.3%
2010	7-1-08	—	2,244,000	2,244,000	0.0	20,026,581	11.2

See Note 13 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

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2010

	Special Revenue Funds			
	Management Account	Student Activities	Expendable Trust	Total
Assets				
Cash and investments	$ 2,604,254	$ 199,259	$ 114,992	$ 2,918,505
Receivables				
Property Taxes, Net				
Current year delinquent	19,615	—	—	19,615
Succeeding year	800,004	—	—	800,004
Due from other funds	—	73,986	—	73,986
Interfund loan to agency	150,000	—	—	150,000
Other	—	27,406	—	27,406
Total Assets	**$ 3,573,873**	**$ 300,651**	**$ 114,992**	**$ 3,989,516**
Liabilities and Equities				
Liabilities				
Accounts payable	$ 3,190	$ 40,686	$ —	$ 43,876
Salaries and benefits payable	—	9,735	—	9,735
Interfund payable	—	503	—	503
Early retirement payable	471,407	—	—	471,407
Deferred Revenue				
Succeeding year property taxes	800,004	—	—	800,004
Other	1,558	—	—	1,558
Total Liabilities	**1,276,159**	**50,924**	**—**	**1,327,083**
Equities				
Reserved for Scholarships	—	—	109,691	109,691
Unreserved, Reported in Special revenue funds	2,297,714	249,727	5,301	2,552,742
Total Equities	**2,297,714**	**249,727**	**114,992**	**2,662,433**
Total Liabilities and Equities	**$ 3,573,873**	**$ 300,651**	**$ 114,992**	**$ 3,989,516**

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2010

	Special Revenue Funds			
	Management Account	**Student Activities**	**Expendable Trust**	**Total**
Revenue				
Local tax	$ 1,298,216	$ —	$ —	$ 1,298,216
Other	28,170	1,003,710	17,893	1,049,773
State sources	1,071	—	—	1,071
Total Revenue	**1,327,457**	**1,003,710**	**17,893**	**2,349,060**
Expenditures				
Instruction				
Regular instruction	338,876	—	—	338,876
Co-curricular instruction	—	971,760	—	971,760
Total Instruction	338,876	971,760	—	1,310,636
Support Services				
Central support	132,531	—	—	132,531
Other support	452,308	—	—	452,308
Total Support Services	584,839	—	—	584,839
Noninstructional Programs				
Scholarships	—	—	26,285	26,285
Total Expenditures	**923,715**	**971,760**	**26,285**	**1,921,760**
Revenue Over (Under) Expenditures	**403,742**	**31,950**	**(8,392)**	**427,300**
Net Change in Fund Balances	**403,742**	**31,950**	**(8,392)**	**427,300**
Fund Balances - Beginning of Year	1,893,972	217,777	123,384	2,235,133
Fund Balances - End of Year	**$ 2,297,714**	**$ 249,727**	**$ 114,992**	**$ 2,662,433**

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2010

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Administration	$ 29,692	$ 12,885	$ 13,335	$ 29,242
Special Olympics	—	6,072	6,072	—
Talent Development	5,024	2,030	6,475	579
High School Speech and Drama	7,079	5,957	6,289	6,747
High School Vocal Music	47,549	170,606	163,755	54,400
High School Instrumental Music	21,143	45,025	41,636	24,532
High School Athletics	(3,062)	319,860	316,642	156
Dance Team	1,458	987	2,445	—
Cheerleading	(3,340)	25,089	21,749	—
General Athletics	—	113,489	113,489	—
Concession Stand	12,526	59,814	59,935	12,405
Tournaments	—	24,593	20,145	4,448
National Art Honor Society	1,005	178	21	1,162
Foreign Language	—	1,783	1,665	118
AFS International Club	1,203	—	—	1,203
Model U.N.	3,126	—	980	2,146
Literary Club	237	—	—	237
Math Club	1,501	67	—	1,568
Science Club	374	25	68	331
Home Economics	243	—	—	243
Adult Living	449	—	—	449
Industrial Tech - Special Project	563	—	—	563
Prom	3,969	6,850	4,474	6,345
Student Council	4,417	8,340	4,965	7,792
Mohawk Press	—	2,100	—	2,100
Yearbook	(17,382)	40,849	39,588	(16,121)
Ambassadors	1,053	—	—	1,053
National Honor Society	—	365	365	—
Alternative School	2,296	5,046	4,985	2,357
Middle School Athletics	25	36,318	36,318	25
Middle School Vocal Music	327	—	—	327
John Adams Middle School	18,332	16,628	17,132	17,828
Roosevelt Middle School	49,499	49,077	44,217	54,359
Harding Elementary	6,249	23,038	21,013	8,274
Hoover Elementary	1,307	10,082	11,389	—
Jefferson Elementary	5,964	4,971	4,476	6,459
Madison Elementary	539	—	—	539
Roosevelt Elementary	1,279	7,527	7,094	1,712
Student Parking	3,800	459	2	4,257
MCHS JEL	5,740	—	—	5,740
MCHS Sod House	17	—	—	17
MCHS Trapshooting	(830)	1,352	522	—
MCHS Best Buddies	1,406	1,498	519	2,385
MCHC/ISU Prosper Grant	3,000	750	—	3,750
	$ 217,777	**$ 1,003,710**	**$ 971,760**	**$ 249,727**

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund

Year Ended June 30, 2010

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and investments	$ 41,798	$ 256,764	$ 253,926	$ 44,636
Due from other funds	—	162,938	—	162,938
Total Assets	**$ 41,798**	**$ 419,702**	**$ 253,926**	**$ 207,574**
Liabilities				
Accounts payable	$ 23	$ 53	$ 23	$ 53
Due to others	31,268	255,914	243,396	43,786
Due to other funds	10,507	13,735	10,507	13,735
Interfund loan	—	150,000	—	150,000
Total Liabilities	**$ 41,798**	**$ 419,702**	**$ 253,926**	**$ 207,574**

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

For the Last Nine Years

	2010	2009	2008	2007
Revenue				
Local Sources				
Property taxes	$ 18,792,533	$ 18,482,676	$ 18,369,828	$ 17,944,250
Tuition	969,895	773,756	689,366	688,651
Other	1,557,159	1,735,786	2,169,005	2,397,408
Intermediate sources	—	—	3,239	3,070
State sources	18,898,633	21,634,299	20,938,336	20,594,807
Federal sources	4,124,438	1,008,833	1,198,706	1,252,122
Total	**$ 44,342,658**	**$ 43,635,350**	**$ 43,368,480**	**$ 42,880,308**
Expenditures				
Instruction				
Regular instruction	$ 14,567,967	$ 14,329,253	$ 13,925,271	$ 14,094,556
Special instruction	8,173,084	8,951,060	8,582,024	7,961,424
Vocational instruction	719,311	800,266	823,893	725,538
Co-curricular instruction	3,271,661	2,769,624	2,697,209	2,274,720
Other instruction	—	—	—	—
Support Services				
Student services	1,033,000	965,307	856,993	946,822
Instructional staff services	781,290	953,723	768,295	859,849
Administration services	3,515,080	3,685,363	3,736,825	3,496,479
Operation and maintenance of plant services	2,943,584	3,244,035	2,900,385	2,924,864
Transportation services	1,263,411	1,277,202	1,180,755	1,070,857
Central support services	133,686	155,736	—	3,947
Community services	21,734	20,581	31,535	27,220
Other support services	452,308	405,477	411,467	432,686
Noninstructional programs	26,285	31,434	35,969	47,893
Other Expenditures				
Facilities acquisition	996,763	506,723	712,643	4,398,636
Long-Term Debt				
Principal	5,955,000	2,595,000	2,510,000	2,450,000
Interest and other charges	571,464	757,028	842,650	941,675
AEA flowthrough	1,827,794	1,556,509	1,473,782	1,441,443
Total	**$ 46,253,422**	**$ 43,004,321**	**$ 41,489,696**	**$ 44,098,609**

2006	2005	2004	2003	2002
$ 17,655,326	$ 16,907,057	$ 15,233,474	$ 12,978,548	$ 12,221,369
559,101	673,039	587,095	568,980	553,071
2,144,816	2,102,912	1,324,786	1,541,293	1,581,319
3,150	21,812	—	—	—
19,990,995	19,381,781	18,956,646	18,954,174	17,815,730
1,139,746	1,193,538	1,250,640	895,238	703,233
$ 41,493,134	**$ 40,280,139**	**$ 37,352,641**	**$ 34,938,233**	**$ 32,874,722**
$ 12,851,648	$ 12,499,642	$ 12,867,538	$ 12,580,788	$ 12,946,298
7,930,603	8,343,099	8,948,307	8,090,177	5,802,878
623,236	583,875	419,619	397,634	409,424
2,104,340	1,374,316	1,386,706	1,495,486	1,463,748
—	—	—	—	1,249,819
914,875	945,606	893,804	897,688	944,005
826,137	1,906,887	1,037,506	1,040,758	1,025,978
3,214,801	2,854,026	2,243,707	2,191,715	2,208,921
2,743,789	2,531,780	2,474,640	2,431,820	2,295,120
1,118,067	729,202	544,964	635,345	578,785
57,608	25,733	216,516	216,645	243,636
28,998	29,456	16,764	25,582	32,074
418,981	427,280	362,371	270,042	194,706
39,145	286,515	35,141	31,300	36,946
15,709,139	3,296,605	1,385,571	974,171	808,401
2,335,000	575,000	550,000	525,000	500,000
1,029,600	676,450	304,605	319,012	340,263
1,384,649	1,343,115	1,357,515	1,425,447	1,373,373
$ 53,330,616	**$ 38,428,587**	**$ 35,045,274**	**$ 33,548,610**	**$ 32,454,375**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 10	$ 144,686
National School Lunch Program	10.555	FY 10	846,829
Summer Food Service Program for Children	10.559	FY 10	7,017
Total Child Nutrition Cluster			998,532
Child Nutrition Discretionary Grants Limited Availability	10.579	FY 10	16,158
Fresh Fruit and Vegetable Program	10.582	FY 10	27,124
Total U.S. Department of Agriculture			**1,041,814**
U.S. Department of Defense			
Pass-Through From Iowa Department of Human Services			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	FY 10	**23,460**
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Cluster - Title I Grants to Local Educational Agencies	84.010	FY 10	653,372
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 10	201,953
Total Title I Cluster			855,325
Title I Program for Neglected and Delinquent Children	84.013	FY 10	49,751
Career and Technical Education - Basic Grants to States	84.048*	FY 10	199,683
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	19,787
Fund for the Improvement of Education	84.215	FY 10	294
Special Education - State Personnel Development	84.323	FY 10	114
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	FY 10	280
Improving Teacher Quality State Grants	84.367	FY 10	203,744
Grants for State Assessments and Related Activities	84.369	FY 10	27,362
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 10	2,158,051
Total Pass-Through From Iowa Department of Education			3,514,391

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Pass-Through From Area Education Agency 267			
Special Education Cluster			
Special Education - Grants to States	84.027	FY 10	$ 236,660
ARRA - Special Education Grants to States Recovery Act	84.391	FY 10	486,424
Total Special Education Cluster			723,084
English Language Acquisition Grants	84.365	FY 10	2,627
Total Pass-Through From Area Education Agency 267			725,711
Total U.S. Department of Education			**4,240,102**
Department of Veterans Affairs			
Pass-Through From Cerro Gordo County Medical Assistance Program	93.778		**32,043**
Total			**$ 5,337,419**

* Includes $162,938 of expenditures paid through the agency fund, and therefore, these expenditures are not reflected in the fund financial statements or the government-wide statements.

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the Mason City Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

The Mason City Community School District provided no federal awards to subrecipients.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Education
Mason City Community School District
Mason City, Iowa

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 Mason City 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 January 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the Mason City 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 the Mason City Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mason City 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 that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a 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 did not note any such deficiencies.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mason City 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 grants, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance 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 Mason City Community School 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.

The Mason City 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 the Mason City 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 the Mason City Community School District, and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties

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Mason City, Iowa
January 18, 2011

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Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance

Board of Education
Mason City Community School District
Mason City, Iowa

Compliance

We have audited the compliance of the Mason City Community School District with the types of compliance requirements described in the *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. The Mason City 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 the Mason City Community School District's management. Our responsibility is to express an opinion on the Mason City Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 Nonprofit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 the Mason City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mason City Community School District's compliance with those requirements.

In our opinion, the Mason City 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.

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Internal Control Over Compliance

The management of the Mason City 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 the Mason City Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in an entity'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.

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

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Mason City, Iowa
January 18, 2011

Schedule of Findings and Questioned Costs

Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	__ yes	_X_ no
Significant deficiency identified not considered to be material weaknesses?	__ yes	_X_ none reported
Noncompliance material to financial statements noted?	__ yes	_X_ no

Federal Awards

Internal control over major programs:		
Material weakness identified?	__ yes	_X_ no
Significant deficiency identified not considered to be material weakness?	__ yes	_X_ none reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	__ yes	_X_ no

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
Title I Program Cluster	
84.010	Title I Grants to Local Educational Agencies
84.389	ARRA - Title I Grants to Local Educational Agencies - Recovery Act
Special Education Cluster	
84.027	Special Education - Grants to States
84.391	ARRA - Special Education - Grants to States, Recovery Act
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	_X_ yes	___ no

Year Ended June 30, 2010

Part II: Findings Related to the Financial Statements

Instances of Noncompliance
There were no current year reported instances of noncompliance.

Internal Control Deficiencies
There were no matters reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance
There were no reported instances of noncompliance.

Internal Control Deficiencies
There were no matters reported.

Part IV: Other Findings Related to Required Statutory Reporting

10-IV-A Certified Budget

Finding - Disbursements for the year ended June 30, 2010 exceeded the certified budget amounts in the other expenditures program function.

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

District's Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

10-IV-B Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

10-IV-C Travel Expense - No disbursements 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.

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

10-IV-E 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 ensure that coverage is adequate for current operations.

10-IV-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

10-IV-G Certified Enrollment

Finding - We noted one student that was incorrectly coded as interim placement rather than tuitioned out.

Auditor's Recommendation - The error noted did not have any effect on supplementary weighting numbers since the student would not be counted under either code; however, we recommend the District verify student codes whenever possible.

District's Response - We will verify student codes whenever possible

Auditor's Conclusion - Response accepted.

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

10-IV-I Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

10-IV-J Certified Annual Report - The certified annual report was filed with the Iowa Department of Education.

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

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

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

Beginning balance		$ 1,357,241
Statewide sales and services tax revenue		4,431,750
Expenditures/Transfers Out		
School Infrastructure		
Other improvements	$ 117,513	
Debt Service for School Infrastructure		
General obligation debt	869,250	
QZAB debt	160,737	
Revenue debt	2,449,625	3,597,125
Ending Balance		**$ 2,191,866**

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

	Per $1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	4.0596489	$4,431,750

10-IV-M Deficit Balances

Finding - One student activity account had a deficit balance at June 30, 2010.

Auditor's Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

District's Response - The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Auditor's Conclusion - Response accepted.