

MIDLAND COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

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Independent Auditor's Report

To the Board of Education of
Midland Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2011, on our consideration of Midland Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Midland Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

April 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,341,082 in fiscal 2009 to \$5,764,067 in fiscal 2010, while General Fund expenditures increased from \$5,469,645 in fiscal 2009 to \$5,594,008 in fiscal 2010. The District's General Fund balance increased from \$451,485 in fiscal 2009 to \$628,588 in fiscal 2010.
- The decrease in General Fund revenues was attributable to the district's net allowable growth between 2009 and 2010. The increase in expenditures was due primarily to employee retention due to stimulus money, wage increases for employees and the day to day operational expenses.

USING THIS ANNUAL REPORT

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

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

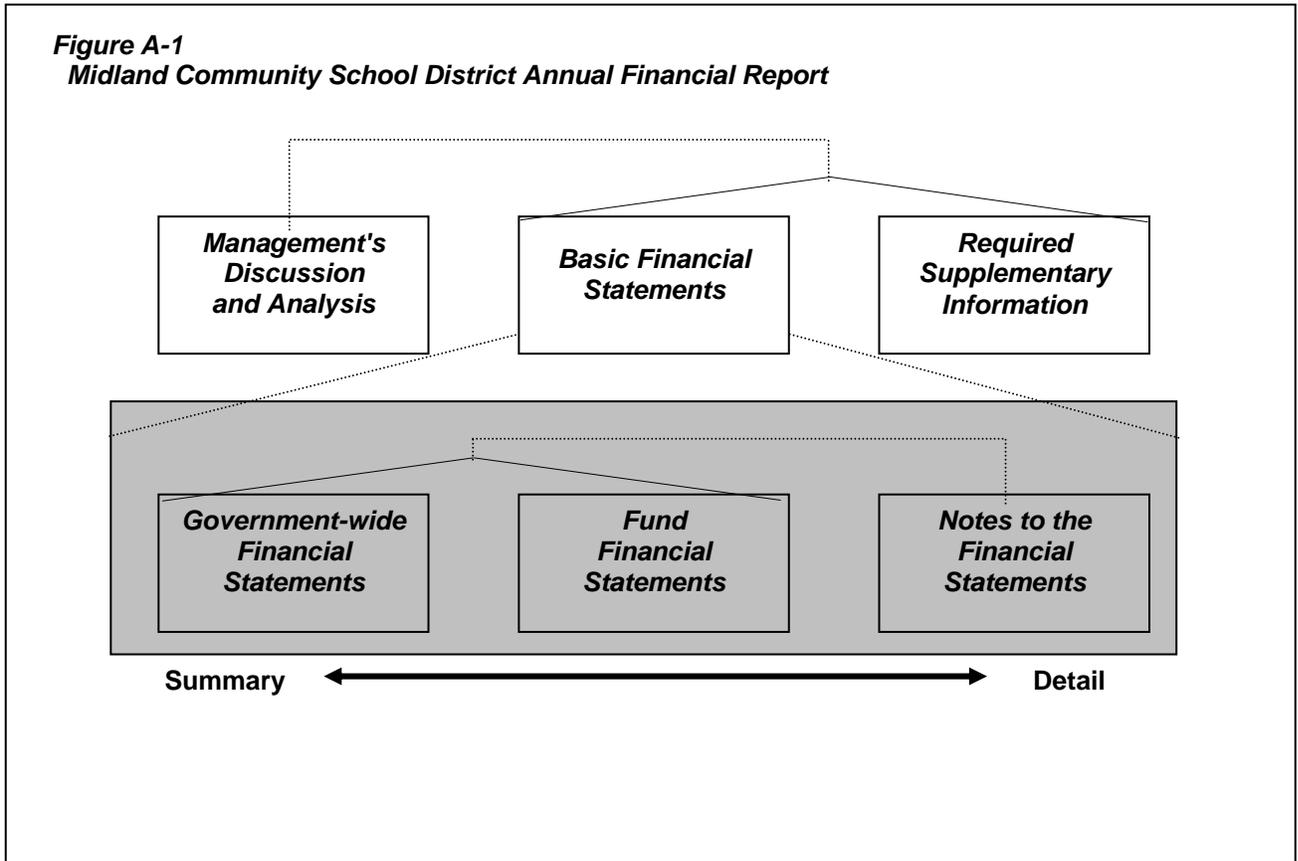


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	5,882,278	7,827,305	42,616	48,067	5,924,894	7,875,372	33%
Capital assets	1,459,231	2,957,532	12,261	9,600	1,471,492	2,967,132	102%
Total assets	7,341,509	10,784,837	54,877	57,667	7,396,386	10,842,504	47%
Long-term liabilities	28,500	2,931,765	-	-	28,500	2,931,765	10,187%
Other liabilities	3,978,214	4,189,949	10,845	6,332	3,989,059	4,196,281	5%
Total liabilities	4,006,714	7,121,714	10,845	6,332	4,017,559	7,128,046	77%
Net Assets:							
Invested in capital assets, net of related debt	1,459,231	1,409,881	12,261	9,600	1,471,492	1,419,481	-4%
Restricted	1,276,270	1,426,553	-	-	1,276,270	1,426,553	11%
Unrestricted	599,294	826,689	31,771	41,735	631,065	868,424	38%
TOTAL NET ASSETS	3,334,795	3,663,123	44,032	51,335	3,378,827	3,714,458	10%

The District's combined net assets increased by nearly 10%, or approximately \$335,631, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$150,283 or 11% over the prior year.

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 \$237,359, or 38%.

Figure A-4 shows the change in net assets for the years ended June 30, 2010 and 2009.

Figure A-4

	Change in Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	
Revenues							
Program Revenues:							
Charges for services	294,976	314,454	124,119	110,338	419,095	424,792	1%
Operating grants & contributions	1,026,403	986,400	111,657	121,371	1,138,060	1,107,771	-3%
Capital grants & contributions	-	12,219	-	-	-	12,219	100%
General Revenues:							
Property taxes	2,767,738	2,870,224	-	-	2,767,738	2,870,224	4%
Income Surtax	256,133	260,245	-	-	256,133	260,245	2%
Statewide sales & service tax	381,579	372,337	-	-	381,579	372,337	-2%
Unrestricted state grants	2,235,760	1,847,632	-	-	2,235,760	1,847,632	-17%
Unrestricted investment earnings	90,246	14,513	-	-	90,246	14,513	-84%
Other revenue	17,020	22,250	-	-	17,020	22,250	31%
Total Revenues	7,069,855	6,700,274	235,776	231,709	7,305,631	6,931,983	-5%
Expenses:							
Instruction	3,689,762	4,273,883	-	-	3,689,762	4,273,883	16%
Support services	1,762,943	1,717,612	-	-	1,762,943	1,717,612	-3%
Non-instructional programs	-	-	228,425	224,406	228,425	224,406	-2%
Other expenditures	334,654	380,451	-	-	334,654	380,451	14%
Total expenses	5,787,359	6,371,946	228,425	224,406	6,015,784	6,596,352	10%
CHANGE IN NET ASSETS	1,282,496	328,328	7,351	7,303	1,289,847	335,631	-74%
Net assets beginning of year	2,052,299	3,334,795	36,681	44,032	2,088,980	3,378,827	62%
Net assets end of year	3,334,795	3,663,123	44,032	51,335	3,378,827	3,714,458	10%

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,700,274 and expenses were \$6,371,946.

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

Total and Net Cost of Governmental Activities

	Total Cost of Services 2009 \$	Total Cost of Services 2010 \$	Net Cost of Services 2009 \$	Net Cost of Services 2010 \$
Instruction	3,689,762	4,273,883	2,592,503	3,214,046
Support Services	1,762,943	1,717,612	1,761,832	1,716,603
Non-instructional Programs	-	-	-	-
Other Expenses	334,654	380,451	111,645	128,224
TOTAL	5,787,359	6,371,946	4,465,980	5,058,873

- The cost financed by users of the District's programs was \$314,454.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$986,400.
- The net cost of governmental activities was financed with \$3,502,806 in property and other taxes and \$1,847,632 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$231,709 and expenses were \$224,406. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,380,435, above last year's ending fund balances of \$1,674,091.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors.
- The General Fund balance increased from \$451,485 to \$628,588 due to receiving stimulus dollars to help retain employees to pay for their salary and benefits and implementing general cost reduction measures.
- The Capital Projects Fund balance increased due to the borrowing of funds to do a building addition and remodeling project at the elementary building site. The District ended fiscal 2010 with a balance of \$2,046,498. Fiscal 2009 ended with a balance of \$780,532.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$44,032 at June 30, 2009 to \$51,335 at June 30, 2010. A large portion of the increased revenue for the School Nutrition fund was due to building closures and reduction of food service staff and an expansion of our a la carte program at the secondary building.

BUDGETARY HIGHLIGHTS

The District's receipts were \$1,116,742 less than budgeted receipts. The District received less miscellaneous income and state revenues than expected during the 2010 fiscal year, there was a loss of grants and other miscellaneous sources.

Total expenditures were \$933,366 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$2,967,132, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$186,713.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2009-2010
	Activities		Activities		School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Land	42,857	42,857	-	-	42,857	42,857	0%
Construction in progress	36,422	1,653,810	-	-	36,422	1,653,810	4,441%
Buildings	340,510	33,470	-	-	340,510	33,470	-90%
Improvements	614,889	862,659	-	-	614,889	862,659	40%
Equipment & Furniture	424,553	364,736	12,261	9,600	436,814	374,336	-14%
TOTAL	1,459,231	2,957,532	12,261	9,600	1,471,492	2,967,132	102%

Long-Term Debt

At June 30, 2010, the District had \$2,931,765 in revenue bonds and other long-term debt outstanding. This represents an increase from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	<u>Total School District</u>		<u>Percentage</u>
	2009	2010	<u>Change</u>
			2009-2010
	\$	\$	
Revenue bonds	-	2,600,000	100%
Termination benefits	28,500	331,765	1,064%
	<u>28,500</u>	<u>2,931,765</u>	<u>10,187%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's total taxable valuation has stayed approximately the same from 09-10 and 10-11 fiscal years.
- School financing is highly dependent upon student enrollment. The District's October 2010 enrollment decreased by approximately 15 students. This drop in student enrollment will decrease the District's funding for fiscal year 2011. The district also had 14 less students open enrolled out.
- The District is expecting the declining enrollment to level off.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus must be replaced during fiscal 2011 at a cost of \$70,000. To pay for the bus, the District will use resources from the Physical Plant and Equipment Levy (PPEL) and Local Option Sales & Service Taxes (LOSST).
- The District negotiated a 2 year agreement with the Midland Education Association (MEA) for the 2010-2011 and 2011-2012 school years.
- The District is continuing to build the cash reserve to be able to absorb shortfalls by the State.
- Additional steps to increase revenue were taken by continuing participation in Iowa School Joint Investment Trust program.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brian Rodenberg, Superintendent, Midland Community School District, 109 Green Street, Wyoming, Iowa, 52362.

BASIC FINANCIAL STATEMENTS

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	4,304,411	43,334	4,347,745
Receivables:			
Property tax:			
Delinquent	50,639	-	50,639
Succeeding year	2,901,149	-	2,901,149
Accounts	776	46	822
Accrued interest	871	-	871
Due from other governments	503,910	-	503,910
Inventories	-	4,687	4,687
Bond issue costs	65,549	-	65,549
Capital assets, net of accumulated depreciation	2,957,532	9,600	2,967,132
Total assets	10,784,837	57,667	10,842,504
Liabilities			
Accounts payable	484,222	-	484,222
Salaries and benefits payable	410,951	4,130	415,081
Accrued interest payable	44,316	-	44,316
Deferred revenue:			
Succeeding year property tax	2,901,149	-	2,901,149
Other	349,311	2,202	351,513
Long-term liabilities:			
Portion due within one year:			
Termination benefits	101,445	-	101,445
Portion due after one year:			
Revenue bonds payable	2,600,000	-	2,600,000
Termination benefits	230,320	-	230,320
Total liabilities	7,121,714	6,332	7,128,046
Net assets			
Invested in capital assets, net of related debt	1,409,881	9,600	1,419,481
Restricted for:			
Categorical funding	103,136	-	103,136
Management levy	79,941	-	79,941
Physical plant and equipment levy	132,129	-	132,129
Other special revenue purposes	58,465	-	58,465
Sales tax capital projects	994,149	-	994,149
Debt service	58,733	-	58,733
Unrestricted	826,689	41,735	868,424
Total net assets	3,663,123	51,335	3,714,458

See notes to financial statements.

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,691,882	185,174	545,053	-
Special	873,610	9,652	69,190	-
Other	708,391	119,553	131,215	-
	<u>4,273,883</u>	<u>314,379</u>	<u>745,458</u>	<u>-</u>
Support services:				
Student	128,501	-	-	-
Instructional staff	76,865	-	-	-
Administration	593,979	-	-	-
Operation and maintenance of plant	472,763	75	-	-
Transportation	445,504	-	934	-
	<u>1,717,612</u>	<u>75</u>	<u>934</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	7,338	-	-	12,219
Long-term debt interest	44,316	-	-	-
AEA flowthrough	240,008	-	240,008	-
Depreciation (unallocated)*	88,789	-	-	-
	<u>380,451</u>	<u>-</u>	<u>240,008</u>	<u>12,219</u>
Total governmental activities	6,371,946	314,454	986,400	12,219
Business type activities:				
Non-instructional programs:				
Food service operations	224,406	110,338	121,371	-
Total	224,406	110,338	121,371	-
	<u>6,596,352</u>	<u>424,792</u>	<u>1,107,771</u>	<u>12,219</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net
Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,961,655)	-	(1,961,655)
(794,768)	-	(794,768)
<u>(457,623)</u>	<u>-</u>	<u>(457,623)</u>
<u>(3,214,046)</u>	<u>-</u>	<u>(3,214,046)</u>
(128,501)	-	(128,501)
(76,865)	-	(76,865)
(593,979)	-	(593,979)
(472,688)	-	(472,688)
<u>(444,570)</u>	<u>-</u>	<u>(444,570)</u>
<u>(1,716,603)</u>	<u>-</u>	<u>(1,716,603)</u>
4,881	-	4,881
(44,316)	-	(44,316)
-	-	-
<u>(88,789)</u>	<u>-</u>	<u>(88,789)</u>
<u>(128,224)</u>	<u>-</u>	<u>(128,224)</u>
(5,058,873)	-	(5,058,873)
<u>-</u>	<u>7,303</u>	<u>7,303</u>
<u>(5,058,873)</u>	<u>7,303</u>	<u>(5,051,570)</u>
2,664,083	-	2,664,083
206,141	-	206,141
260,245	-	260,245
372,337	-	372,337
1,847,632	-	1,847,632
14,513	-	14,513
<u>22,250</u>	<u>-</u>	<u>22,250</u>
<u>5,387,201</u>	<u>-</u>	<u>5,387,201</u>
328,328	7,303	335,631
<u>3,334,795</u>	<u>44,032</u>	<u>3,378,827</u>
<u>3,663,123</u>	<u>51,335</u>	<u>3,714,458</u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,360,741	2,250,789	692,881	4,304,411
Receivables:				
Property tax:				
Delinquent	43,486	-	7,153	50,639
Succeeding year	2,694,727	-	206,422	2,901,149
Accounts	-	-	776	776
Accrued interest	-	871	-	871
Interfund receivable	2,500	-	10,070	12,570
Due from other governments	424,572	79,338	-	503,910
Total assets	4,526,026	2,330,998	917,302	7,774,326
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	196,691	284,500	3,031	484,222
Salaries and benefits payable	410,951	-	-	410,951
Interfund payable	10,070	-	2,500	12,570
Deferred revenue:				
Succeeding year property tax	2,694,727	-	206,422	2,901,149
Income surtax	235,688	-	-	235,688
Other	349,311	-	-	349,311
Total liabilities	3,897,438	284,500	211,953	4,393,891
Fund balances:				
Reserved for:				
Categorical funding	103,136	-	-	103,136
Debt service	-	-	103,049	103,049
Unreserved reported in:				
General fund	525,452	-	-	525,452
Special revenue funds	-	-	602,300	602,300
Capital projects funds	-	2,046,498	-	2,046,498
Total fund balances	628,588	2,046,498	705,349	3,380,435
Total liabilities and fund balances	4,526,026	2,330,998	917,302	7,774,326

MIDLAND COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

	\$
Total fund balances of governmental funds (Exhibit C)	3,380,435
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,957,532
Bond issue costs are reported as an asset in the statement of net assets and are amortized over the life of the bonds.	65,549
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	235,688
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(44,316)
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,931,765)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,663,123</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,719,326	372,337	405,428	3,497,091
Tuition	156,044	-	-	156,044
Other	54,936	12,219	133,193	200,348
State sources	2,489,952	-	271	2,490,223
Federal sources	343,809	-	-	343,809
Total revenues	<u>5,764,067</u>	<u>384,556</u>	<u>538,892</u>	<u>6,687,515</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,350,649	-	48,706	2,399,355
Special	873,610	-	-	873,610
Other	592,203	-	116,188	708,391
	<u>3,816,462</u>	<u>-</u>	<u>164,894</u>	<u>3,981,356</u>
Support services:				
Student	128,111	-	390	128,501
Instructional staff	73,551	-	300	73,851
Administration	520,973	-	72,903	593,876
Operation and maintenance of plant	465,306	-	38,993	504,299
Transportation	349,597	-	24,111	373,708
	<u>1,537,538</u>	<u>-</u>	<u>136,697</u>	<u>1,674,235</u>
Other expenditures:				
Facilities acquisition	-	1,547,651	77,075	1,624,726
AEA flowthrough	240,008	-	-	240,008
	<u>240,008</u>	<u>1,547,651</u>	<u>77,075</u>	<u>1,864,734</u>
Total expenditures	<u>5,594,008</u>	<u>1,547,651</u>	<u>378,666</u>	<u>7,520,325</u>
Excess (deficiency) of revenues over (under) expenditures	<u>170,059</u>	<u>(1,163,095)</u>	<u>160,226</u>	<u>(832,810)</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	4,544	-	-	4,544
Bonds issued	-	2,600,000	-	2,600,000
Bond issue costs	-	(67,890)	-	(67,890)
Sales of equipment	2,500	-	-	2,500
Operating transfers in	-	-	103,049	103,049
Operating transfers out	-	(103,049)	-	(103,049)
Total other financing sources (uses)	<u>7,044</u>	<u>2,429,061</u>	<u>103,049</u>	<u>2,539,154</u>
Net change in fund balances	177,103	1,265,966	263,275	1,706,344
Fund balances beginning of year	451,485	780,532	442,074	1,674,091
Fund balances end of year	<u>628,588</u>	<u>2,046,498</u>	<u>705,349</u>	<u>3,380,435</u>

See notes to financial statements.

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		1,706,344
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	1,682,353	
Depreciation expense	<u>(184,052)</u>	1,498,301
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		5,715
Bond issue costs are reported as an expense in the governmental fund financial statements, but are capitalized and amortized over the life of the bonds in the government-wide financial statements.		65,549
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.		(44,316)
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:		
Termination benefits		(303,265)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(2,600,000)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>328,328</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	43,334
Accounts receivable	46
Inventories	4,687
Capital assets, net of accumulated depreciation	<u>9,600</u>
Total assets	<u>57,667</u>
Liabilities	
Salaries and benefits payable	4,130
Deferred revenue	<u>2,202</u>
Total liabilities	<u>6,332</u>
Net assets	
Invested in capital assets	9,600
Unrestricted	<u>41,735</u>
Total net assets	<u><u>51,335</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>110,338</u>
Operating expenses:	
Non-instructional programs:	
Salaries	99,918
Benefits	14,294
Purchased services	4,518
Supplies	103,015
Depreciation	2,661
Total operating expenses	<u>224,406</u>
Operating gain (loss)	<u>(114,068)</u>
Non-operating revenues:	
State sources	2,391
Federal sources	118,980
Total non-operating revenues	<u>121,371</u>
Change in net assets	7,303
Net assets beginning of year	<u>44,032</u>
Net assets end of year	<u><u>51,335</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	110,954
Cash payments to employees for services	(119,364)
Cash payments to suppliers for goods or services	(96,786)
Net cash used by operating activities	<u>(105,196)</u>
Cash flows from non-capital financing activities:	
State grants received	2,391
Federal grants received	106,962
Net cash provided by non-capital financing activities	<u>109,353</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	4,157
Cash and cash equivalents at beginning of year	<u>39,177</u>
Cash and cash equivalents at end of year	<u><u>43,334</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(114,068)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	12,018
Depreciation	2,661
Decrease (increase) in inventories	(1,271)
Decrease (increase) in accounts receivable	(23)
(Decrease) increase in salaries and benefits payable	(5,152)
(Decrease) increase in deferred revenue	639
Net cash used by operating activities	<u><u>(105,196)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010 the District received \$12,018 of federal commodities.

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	15,531
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>15,531</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose Trust Scholarship <u> </u> \$
Additions:	
Local sources:	
Interest	636
Deductions:	
Support services:	
Scholarships awarded	<u>1,000</u>
Change in net assets	(364)
Net assets beginning of year	<u>15,895</u>
Net assets end of year	<u><u>15,531</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

1. Summary of Significant Accounting Policies

Midland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Wyoming, Onslow, Oxford Junction, Lost Nation, Center Junction and Monmouth, Iowa and the predominately agricultural territory in a portion of Jones, Jackson, Clinton and Cedar Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	2,500
Buildings	2,500
Improvements other than buildings	2,500
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-20 years
Intangibles	3-10 years
Furniture and equipment	3-15 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax 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 and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or 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 are imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, the District exceeded the amount budgeted in the other expenditures function.

2. **Cash and Pooled 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 improvement certificates of a drainage district.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
	\$
Diversified Portfolio	3,546,633

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

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Nonmajor Governmental: Management Fund	General Fund	10,070
General Fund	Nonmajor Governmental: Physical Plant and Equipment Levy Fund	2,500

4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental, Debt Service Fund	Capital Projects Fund	103,049

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

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	42,857	-	-	42,857
Construction in progress	36,422	1,617,388	-	1,653,810
	<u>79,279</u>	<u>1,617,388</u>	<u>-</u>	<u>1,696,667</u>
Capital assets being depreciated:				
Buildings	2,318,832	-	-	2,318,832
Improvements other than buildings	1,374,108	33,898	-	1,408,006
Furniture and equipment	1,519,702	31,067	73,099	1,477,670
Total capital assets being deprec.	<u>5,212,642</u>	<u>64,965</u>	<u>73,099</u>	<u>5,204,508</u>

Less accumulated depreciation for:				
Buildings	2,283,872	1,490	-	2,285,362
Improvements other than buildings	490,961	54,386	-	545,347
Furniture and equipment	1,057,857	128,176	73,099	1,112,934
Total accumulated depreciation	<u>3,832,690</u>	<u>184,052</u>	<u>73,099</u>	<u>3,943,643</u>
Total capital assets being depreciated, net	<u>1,379,952</u>	<u>(119,087)</u>	<u>-</u>	<u>1,260,865</u>
Governmental activities capital assets, net	<u>1,459,231</u>	<u>1,498,301</u>	<u>-</u>	<u>2,957,532</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	104,033	-	-	104,033
Less accumulated depreciation	<u>91,772</u>	<u>2,661</u>	<u>-</u>	<u>94,433</u>
Business type activities capital assets, net	<u>12,261</u>	<u>(2,661)</u>	<u>-</u>	<u>9,600</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	17,329
Support services:	
Instructional support	3,014
Administration	762
Operation and maintenance of plant services	2,362
Transportation	<u>71,796</u>
	95,263
Unallocated depreciation	<u>88,789</u>
Total depreciation expense – governmental activities	<u>184,052</u>
Business type activities:	
Food services	<u>2,661</u>

6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Revenue bond	-	2,600,000	-	2,600,000	-
Termination benefits	<u>28,500</u>	<u>366,407</u>	<u>63,142</u>	<u>331,765</u>	<u>101,445</u>
Total	<u>28,500</u>	<u>2,966,407</u>	<u>63,142</u>	<u>2,931,765</u>	<u>101,445</u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits are equal to 50% of the employee's regular contractual salary in effect during the employee's last year of employment.

At June 30, 2010, the District has obligations to 13 participants with a total liability of \$331,765. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$63,142.

Revenue Bonds

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

Year Ending June 30,	Bond Issue of December 2009			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	-	-	82,666	82,666
2012	-	-	76,700	76,700
2013	-	-	76,700	76,700
2014	-	-	76,700	76,700
2015	-	-	76,700	76,700
2016-2020	-	-	383,500	383,500
2021-2025	2.95	<u>2,600,000</u>	<u>345,150</u>	<u>2,945,150</u>
		<u>2,600,000</u>	<u>1,118,116</u>	<u>3,718,116</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,600,000 of bonds issued in December 2009. The bonds were issued for the purpose of financing a portion of the costs of school construction. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2025. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Starting July 1, 2010; the District is required to set aside \$178,354 per year in a sinking fund to be used to pay the bonds at maturity. Annual sinking fund and interest payments on the bonds are expected to require nearly 70% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$3,718,116. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$272,337.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$204,679, \$190,166 and \$208,985 respectively, equal to the required contributions for each year.

8. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 57 active and 8 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. 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.

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding 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 the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	24,948
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>24,948</u>
Contributions made	<u>24,948</u>
Increase in net OPEB obligation	-
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>-</u>

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

For the year ended June 30, 2010, the District contributed \$24,948 to the medical plan.

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:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u> \$
June 30, 2010	24,948	100%	-

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$248,255, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$248,255. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,170,000, and the ratio of the UAAL to covered payroll was 11.4%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized over 30 years.

9. Risk Management

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$240,008 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Construction Commitment

The District has entered into a \$3,314,689 contract for construction. As of June 30, 2010 costs of \$1,295,600 had been incurred against the contract. The balance of \$2,019,089 remaining at June 30, 2010 will be paid as work on the project progresses.

12. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
	\$
At-risk	13,634
Returning dropout and dropout prevention program	77,792
Teacher salary supplement	1,676
Beginning teacher mentoring	5,988
Core curriculum	3,587
Beginning administrator mentoring	110
Market factor	56
Other	293
	<u>103,136</u>

REQUIRED SUPPLEMENTARY INFORMATION

MIDLAND COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,853,483	110,338	3,963,821	4,080,495	4,080,495	(116,674)
State sources	2,490,223	2,391	2,492,614	3,195,471	3,195,471	(702,857)
Federal sources	343,809	118,980	462,789	760,000	760,000	(297,211)
Total revenues	<u>6,687,515</u>	<u>231,709</u>	<u>6,919,224</u>	<u>8,035,966</u>	<u>8,035,966</u>	<u>(1,116,742)</u>
Expenditures/Expenses:						
Instruction	3,981,356	-	3,981,356	4,259,826	4,259,826	278,470
Support services	1,674,235	-	1,674,235	2,381,000	2,381,000	706,765
Non-instructional programs	-	224,406	224,406	332,681	332,681	108,275
Other expenditures	1,864,734	-	1,864,734	1,704,590	1,704,590	(160,144)
Total expenditures/expenses	<u>7,520,325</u>	<u>224,406</u>	<u>7,744,731</u>	<u>8,678,097</u>	<u>8,678,097</u>	<u>933,366</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(832,810)	7,303	(825,507)	(642,131)	(642,131)	(183,376)
Other financing sources (uses) net	<u>2,539,154</u>	<u>-</u>	<u>2,539,154</u>	<u>-</u>	<u>-</u>	<u>2,539,154</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	1,706,344	7,303	1,713,647	(642,131)	(642,131)	2,355,778
Balance beginning of year	<u>1,674,091</u>	<u>44,032</u>	<u>1,718,123</u>	<u>1,295,609</u>	<u>1,295,609</u>	<u>422,514</u>
Balance end of year	<u><u>3,380,435</u></u>	<u><u>51,335</u></u>	<u><u>3,431,770</u></u>	<u><u>653,478</u></u>	<u><u>653,478</u></u>	<u><u>2,778,292</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

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

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

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

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

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	248,255	248,255	0.0%	2,170,000	11.4%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

MIDLAND COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	
	\$	\$	\$	\$	
Cash and pooled investments	398,579	58,678	132,575	103,049	692,881
Receivables:					
Property tax:					
Delinquent	3,516	-	3,637	-	7,153
Succeeding year	-	-	206,422	-	206,422
Accounts	-	776	-	-	776
Interfund receivable	10,070	-	-	-	10,070
Total assets	412,165	59,454	342,634	103,049	917,302
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	459	989	1,583	-	3,031
Interfund payables	-	-	2,500	-	2,500
Deferred revenue:					
Succeeding year property tax	-	-	206,422	-	206,422
Total liabilities	459	989	210,505	-	211,953
Fund balances:					
Reserved for debt service	-	-	-	103,049	103,049
Unreserved reported in:					
Special revenue funds	411,706	58,465	132,129	-	602,300
Total fund balances	411,706	58,465	132,129	103,049	705,349
Total liabilities and fund balances	412,165	59,454	342,634	103,049	917,302

MIDLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	199,287	-	206,141	-	405,428
Other	12,183	120,306	704	-	133,193
State sources	133	-	138	-	271
Total revenues	<u>211,603</u>	<u>120,306</u>	<u>206,983</u>	<u>-</u>	<u>538,892</u>
Expenditures:					
Current:					
Instruction:					
Regular	46,640	-	2,066	-	48,706
Other	-	116,188	-	-	116,188
Support services:					
Student	390	-	-	-	390
Instructional staff	300	-	-	-	300
Administration	17,897	-	55,006	-	72,903
Operation and maintenance of plant	38,481	512	-	-	38,993
Transportation	24,111	-	-	-	24,111
Other expenditures:					
Facilities acquisition	-	-	77,075	-	77,075
Total expenditures	<u>127,819</u>	<u>116,700</u>	<u>134,147</u>	<u>-</u>	<u>378,666</u>
Excess (deficiency) of revenues over (under) expenditures	83,784	3,606	72,836	-	160,226
Other financing sources (uses):					
Operating transfers in	-	-	-	103,049	103,049
Net change in fund balance	83,784	3,606	72,836	103,049	263,275
Fund balances beginning of year	<u>327,922</u>	<u>54,859</u>	<u>59,293</u>	<u>-</u>	<u>442,074</u>
Fund balances end of year	<u><u>411,706</u></u>	<u><u>58,465</u></u>	<u><u>132,129</u></u>	<u><u>103,049</u></u>	<u><u>705,349</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Band revolving	301	670	744	33	260
K-5 vocal music	272	-	-	-	272
Big East Conference	437	1,248	1,653	-	32
Scoreboard account	112	-	-	-	112
Athletics	(3,490)	39,597	38,872	-	(2,765)
Yearbook	4,200	11,184	7,668	(90)	7,626
HS student council	6,689	5,297	7,063	90	5,013
N.H.S./fund balance	165	284	344	-	105
SES (Dance team)	280	-	-	-	280
Drama club	24	-	104	80	-
Cheerleaders	536	-	724	724	536
FCCLA	1,096	-	-	-	1,096
Ag. club	10,800	20,319	20,495	3,514	14,138
Tag fund raising	-	8,287	7,749	(524)	14
Foreign language club	2,755	-	198	-	2,557
Invent Iowa	317	-	-	-	317
MS student council	619	291	50	-	860
Savings interest	217	471	-	(688)	-
SAFE	50	-	-	-	50
FFA wildflower co-op	6,546	-	-	-	6,546
Tatu (Stand)	340	-	-	-	340
Environment grant fund	332	-	-	-	332
OJ book fairs	589	1,532	1,033	-	1,088
Fine arts	1,943	2,354	2,457	589	2,429
4th & 5th Incentive	737	-	-	-	737
Onslow elementary (pop account)	1,876	726	1,048	-	1,554
Art fund	19	-	-	-	19
Art club	830	210	818	-	222
Boys basketball camp	302	60	270	-	92
Interest	-	281	-	(281)	-
High school incentives	2,309	20,117	13,525	(7,028)	1,873
Onslow book fair	1,115	-	863	-	252
Oxford junction pop machine	1,054	920	1,283	-	691
OJ 4 & 5 incentive	1,754	-	-	-	1,754
Onslow K-3 activity	403	3,778	2,249	-	1,932
Onslow box top	2,151	310	1,321	-	1,140
OJ/BELC donation/fund balance	1,233	483	762	(33)	921
ONS/BELC donation/fund balance	250	-	-	-	250
OJ elem. assistance/fund balance	47	-	-	-	47

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Middle school incentives	1,124	-	-	-	1,124
Sound system balance	60	-	-	-	60
Print cartridge fund	127	326	141	-	312
Kelly Block-Davidson memorial	1,920	-	1,552	-	368
Class of 2009	283	20	-	-	303
Class of 2010	2,135	1,038	2,521	-	652
Class of 2011	-	503	1,093	3,514	2,924
Class of 2012	-	-	100	100	-
	<u>54,859</u>	<u>120,306</u>	<u>116,700</u>	<u>-</u>	<u>58,465</u>
Totals	<u>54,859</u>	<u>120,306</u>	<u>116,700</u>	<u>-</u>	<u>58,465</u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	3,497,091	3,385,477	3,346,942	3,352,829	3,142,356	3,284,634	3,351,863
Tuition	156,044	136,663	155,580	164,339	107,249	103,064	125,238
Other	200,348	248,559	306,207	278,862	248,238	205,937	193,666
Intermediate sources	-	-	-	-	-	-	2,836
State sources	2,490,223	3,034,292	2,935,668	2,659,188	2,730,699	2,818,011	2,759,844
Federal sources	343,809	227,871	244,829	244,016	268,619	260,998	229,029
Total revenues	<u>6,687,515</u>	<u>7,032,862</u>	<u>6,989,226</u>	<u>6,699,234</u>	<u>6,497,161</u>	<u>6,672,644</u>	<u>6,662,476</u>
Expenditures:							
Instruction:							
Regular	2,399,355	2,189,114	2,211,829	2,519,018	2,392,213	2,396,800	2,399,410
Special	873,610	1,047,891	1,019,536	866,378	842,127	892,618	1,056,081
Other	708,391	532,833	765,087	762,651	748,183	618,321	430,536
Support services:							
Student	128,501	131,945	304,769	285,577	291,357	264,784	245,736
Instructional staff	73,851	76,631	86,282	192,303	247,796	138,643	92,767
Administration	593,876	555,995	730,835	878,838	865,207	710,244	634,671
Operation and maintenance	504,299	524,515	570,287	623,125	633,546	554,315	503,425
Transportation	373,708	476,350	536,759	533,177	448,985	382,458	465,503
Non-instructional programs	-	-	5,550	-	-	-	-
Other expenditures:							
Facilities acquisition	1,624,726	371,935	326,577	204,622	317,742	284,010	365,570
AEA flowthrough	240,008	223,009	218,416	212,007	205,468	207,443	213,534
Total expenditures	<u>7,520,325</u>	<u>6,130,218</u>	<u>6,775,927</u>	<u>7,077,696</u>	<u>6,992,624</u>	<u>6,449,636</u>	<u>6,407,233</u>

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

To the Board of Education of
Midland Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Midland 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 April 28, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Midland 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 an opinion on the effectiveness of Midland Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Midland Community School District's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Midland Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Midland 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 Midland Community School District and other parties to whom Midland Community School District may report, and is not intended to be and should not be used by anyone other than these specified parties.

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

April 28, 2011

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparing and posting general journal entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

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

Conclusion: Response accepted.

10-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

10-II-A Certified Budget: Expenditures for the year ended June 30, 2010, exceeded the amounts budgeted in the other expenditures function.

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

District Response: Year-end construction expenditures were more than anticipated. Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

10-II-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-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

10-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Terry Lineburg, Board Member	Harvested FFA Corn	512
Carol Andresen, Board Member, employee of local bank	School Banking	

Recommendation: Business with District officials is not a conflict of interest if bids are taken, or the total amount is less than \$2,500. The District should consult with their attorney regarding transactions with school officials that may be conflicts of interest.

District Response: We are aware of the conflict of interest rules and will consult with an attorney when necessary.

Conclusion: Response accepted.

10-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

10-II-F Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.

10-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

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

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued):

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

10-II-J Certified Annual Report: The Certified Annual Report was certified timely to the Iowa Department of Education.

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

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, then were reclassified as categorical spending at the end of the year.

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

District Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion: Response accepted.

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

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

Beginning balance	\$	\$
		780,532
Statewide sales, services and use tax	372,337	
Interest	12,219	
Bonds issued	<u>2,600,000</u>	2,984,556
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	1,547,651	
Debt service for school infrastructure:		
Bond issue costs	67,890	
Revenue debt	<u>103,049</u>	<u>1,718,590</u>
Ending balance		<u><u>2,046,498</u></u>

MIDLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued):

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:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
	\$	\$
Debt service levy	.49811	103,049
Physical plant and equipment levy	1.30168	269,288

10-II-M Construction Contract Change Orders: We noted that the Board of Directors did not approve change orders.

Recommendation: All contract changes should be approved by the Board and documented in the minutes.

District Response: All future contract changes will be documented in the minutes.

Conclusion: Response accepted.