

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2010

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Montezuma Community School District

Officials

(Before September 2009 Election)

Board of Education

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

(After September 2009 Election)

Board of Education

Pete Ross	President	2011
Doug Johnston	Vice President	2011
Vince Johnson	Board Member	2013
Steve Audas	Board Member	2013
Doug Hoksbergen	Board Member	2011

School Officials

Dave VerSteeg	Superintendent	2010
Barabara J. Albin	Board Secretary/ Treasurer	2010
Don Longhurst	Board Secretary Pro-Tem	2010
Ahlers & Cooney	District Attorney	2010

MONTEZUMA COMMUNITY SCHOOL DISTRICT

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

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District, Montezuma, Iowa, as of and for the year ended June 30, 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 Montezuma 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 December 10, 2010 on our consideration of Montezuma Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

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We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montezuma Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nolte, Cornman & Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

December 10, 2010

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

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

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,681,634 in fiscal year 2009 to \$4,806,404 in fiscal year 2010, while General Fund expenditures also increased from \$4,773,134 in fiscal 2009 to \$4,900,693 in fiscal 2010. This, along with a ten percent reduction in state funding, resulted in a decrease in the District's General Fund balance from \$713,921 in fiscal 2009 to \$619,632 in fiscal 2010.
- The increase in General Fund revenues was attributable primarily to an increase in operating grants and contributions in fiscal 2010. The increase in expenditures was due primarily to an increase in instructional and service functional areas affected by increase in contracts and supplies.
- Overall, the District increased net assets in the governmental activities by \$128,313, and increased in the business type activities by \$11,198, respectively.
- As of June 30, 2010, the District's solvency ratio was 11.0% as compared to 13.6% for June 30, 2009. However, since fiscal year 2005, the District's solvency ratio has risen from 4.6% to 11.0%.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

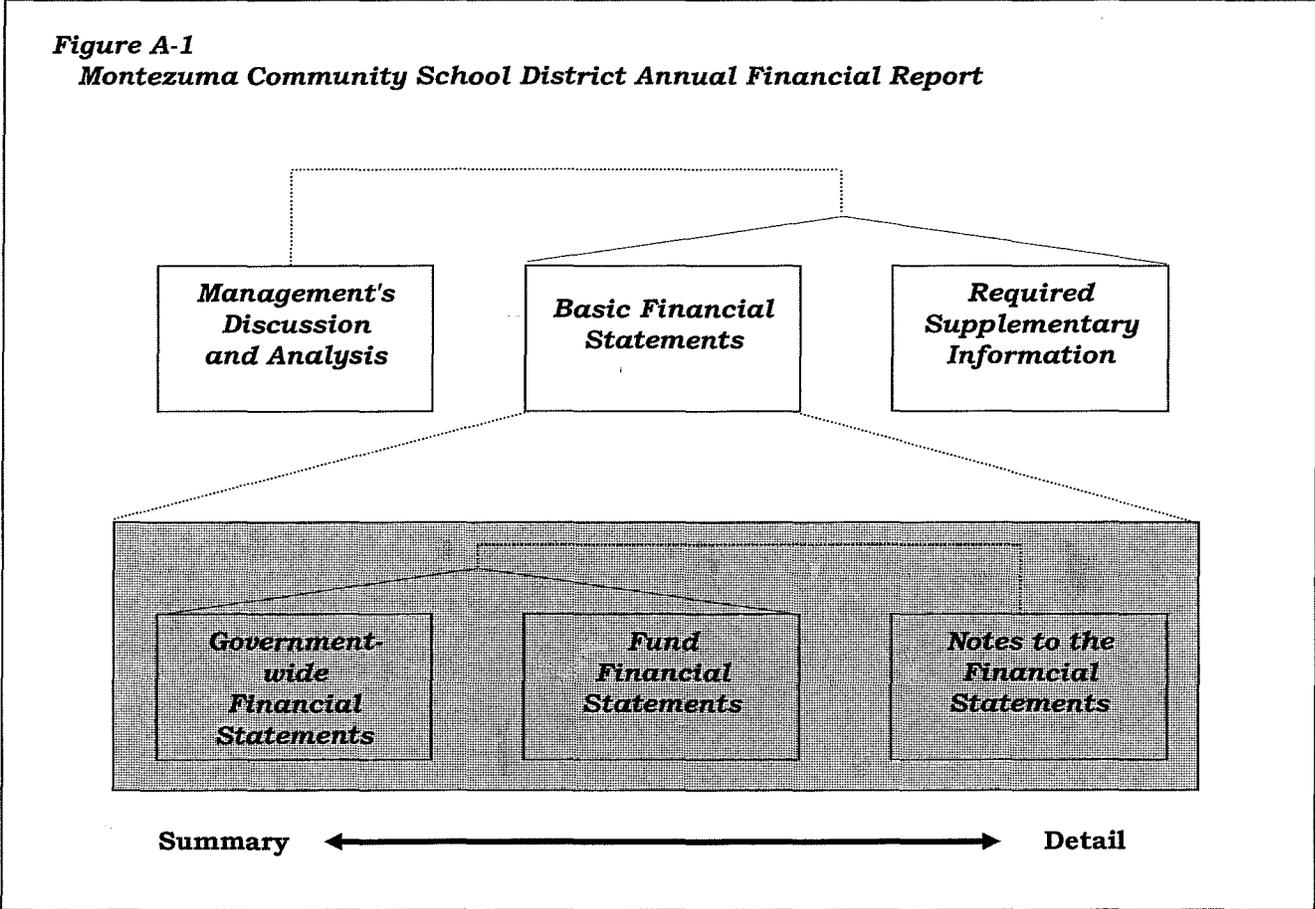


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other entities and the Empowerment Program, whereby the District acts as the fiscal agent.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 5,105,423	5,167,257	58,584	44,819	5,164,007	5,212,076	-0.92%
Capital assets	1,465,161	1,248,524	78,111	82,460	1,543,272	1,330,984	15.95%
Total assets	6,570,584	6,415,781	136,695	127,279	6,707,279	6,543,060	2.51%
Long-term obligations	343,275	156,528	0	0	343,275	156,528	119.31%
Other liabilities	3,064,304	3,224,561	11,417	13,199	3,075,721	3,237,760	-5.00%
Total liabilities	3,407,579	3,381,089	11,417	13,199	3,418,996	3,394,288	0.73%
Net assets:							
Invested in capital assets, net of related debt	1,465,161	1,248,524	78,111	82,460	1,543,272	1,330,984	15.95%
Restricted	999,827	944,354	0	0	999,827	944,354	5.87%
Unrestricted	698,017	841,814	47,167	31,620	745,184	873,434	-14.68%
Total net assets	\$ 3,163,005	3,034,692	125,278	114,080	3,288,283	3,148,772	4.43%

The District’s combined net assets increased by 4.43% over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 5.87% compared to prior year.

Unrestricted net assets are the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased by 14.68% from the prior year.

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

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 368,342	590,610	148,604	161,137	516,946	751,747	-31.23%
Operating grants and contributions and restricted interest	1,100,730	714,646	103,978	80,876	1,204,708	795,522	51.44%
Capital grants and contributions and restricted interest	7,000	0	0	0	7,000	0	100.00%
General revenues:							
Local tax	2,575,745	2,318,063	0	0	2,575,745	2,318,063	11.12%
Statewide sales and service tax	352,729	353,942	0	0	352,729	353,942	-0.34%
Unrestricted state grants	1,323,558	1,502,744	0	0	1,323,558	1,502,744	-11.92%
Other	72,431	83,347	60	2,269	72,491	85,616	-15.33%
Transfers	(5,190)	(34,999)	5,190	34,999	0	0	0.00%
Total revenues	5,795,345	5,528,353	257,832	279,281	6,053,177	5,807,634	4.23%
Program expenses:							
Governmental activities:							
Instruction	4,036,957	3,645,243	0	0	4,036,957	3,645,243	10.75%
Support services	1,301,359	1,246,087	0	0	1,301,359	1,246,087	4.44%
Non-instructional programs	0	0	246,634	250,133	246,634	250,133	-1.40%
Other expenses	328,716	353,390	0	0	328,716	353,390	-6.98%
Total expenses	5,667,032	5,244,720	246,634	250,133	5,913,666	5,494,853	7.62%
Change in net assets	128,313	283,633	11,198	29,148	139,511	312,781	-55.40%
Net assets beginning of year	3,034,692	2,751,059	114,080	84,932	3,148,772	2,835,991	11.03%
Net assets end of year	\$ 3,163,005	3,034,692	125,278	114,080	3,288,283	3,148,772	4.43%

In fiscal 2010, local tax, statewide sales and services tax, and unrestricted state grants account for 73.37% of the revenue from governmental activities while charges for services and operating grants and contributions account for 97.96% of the revenue from business type activities.

The District's total revenues were \$6,053,177 of which \$5,795,345 was for governmental activities and \$257,832 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.23% increase in revenues and a 7.62% increase in expenses. The increase in expenses was related to increases in instruction and support services expenditures.

**Governmental Activities**

Revenues for governmental activities were \$5,795,346 and expenses were \$5,667,033.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 4,036,957	3,645,243	10.75%	2,791,378	2,526,706	10.47%
Support services	1,301,359	1,246,087	4.44%	1,301,359	1,245,310	4.50%
Other expenses	328,716	353,390	-6.98%	98,223	167,448	-41.34%
Totals	\$ 5,667,032	5,244,720	8.05%	4,190,960	3,939,464	6.38%

- The cost financed by users of the District’s programs was \$368,342.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,107,730.
- The net cost of governmental activities was financed with \$2,575,745 in property tax, \$352,729 in statewide sales and services tax, \$1,323,588 in unrestricted state grants, \$11,161 in interest income and \$61,270 in other general revenues.

**Business type Activities**

Revenues of the District’s business type activities were \$257,832 and expenses were \$246,634. The District’s business type activity is the School Nutrition. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,816,404, above last year’s ending fund balances of \$1,737,631, an increase of 4.53% over the prior year.

**Governmental Fund Highlights**

- The District’s General Fund financial position changed from \$713,921 in Fiscal 2009 to \$619,632 in fiscal 2010. This was due to the increase in expenditures during the year and a ten percent reduction in state funding.

- The District's Capital Projects Fund decreased from a beginning balance of \$474,883 in Fiscal 2010, to an ending fund balance of \$451,296. This was due to increased expenditures for construction of a new bus barn, ensuring the decrease in fund balance for the Capital Projects Fund.
- The District increased its tax levy in anticipation of a two year plan to offer early retirement incentives and lower salary costs in the General Fund (See Note 4). This levy increase allowed the Management Levy Fund to improve from \$224,186 to \$419,725. Although fund expenditures increased by \$4,313 as compared to fiscal 2009, the increase of \$112,837 in fund revenues resulted in an increase to the fund balance.

### **Proprietary Funds Highlights**

The School Nutrition Fund net assets increased from \$114,080 at June 30, 2009 to \$125,278 at June 30, 2010, representing an increase of 9.81%. The increase was due to the capital contributions made from the PPEL Fund of \$5,190 for a kitchen water heater and an increase in federal revenues during the year.

### **CERTIFIED BUDGETARY HIGHLIGHTS**

The District's revenues were \$114,793 more than budgeted revenues, a variance of 1.94%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2010, the District had invested \$1,543,272, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$169,226.

The original cost of the District's capital assets was \$4,874,774. Governmental funds account for \$4,712,880 with the remainder of \$161,894 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress category increased due to the District addition of a bus barn.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 169,873	168,815	0	0	169,873	168,815	0.63%
Construction in progress	249,084	21,187	0	0	249,084	21,187	1075.65%
Buildings	652,229	706,294	0	0	652,229	706,294	-7.65%
Land improvements	69,828	68,625	0	0	69,828	68,625	1.75%
Machinery and equipment	324,147	283,603	78,111	82,460	402,258	366,063	9.89%
<b>Total</b>	<b>\$ 1,465,161</b>	<b>1,248,524</b>	<b>78,111</b>	<b>82,460</b>	<b>1,543,272</b>	<b>1,330,984</b>	<b>15.95%</b>

### Long-Term Debt

At June 30, 2010, the District had \$343,275 in long-term debt outstanding. This represents a decrease of 119.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding early retirement payable and net OPEB liability from the Special Revenue, Management Levy Fund of \$343,275 at June 30, 2010.

Figure A-7  
Outstanding Long-Term Obligations

	Total		Total
	School District		Change
	June 30,		June 30,
	2010	2009	2009-10
Early retirement	\$ 290,275	156,528	85.45%
Net OPEB liability	53,000	0	100.00%
<b>Totals</b>	<b>\$ 343,275</b>	<b>156,528</b>	<b>119.3%</b>

### ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dave VerSteeg, Superintendent, Montezuma Community School District, 504 North 4<sup>th</sup> Street, Box 580, Montezuma, Iowa, 50171.

MONTEZUMA COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,265,278	48,546	2,313,824
Receivables:			
Property tax:			
Delinquent	23,858	0	23,858
Succeeding year	2,497,106	0	2,497,106
Income surtax	224,715	0	224,715
Due from other governments	94,466	0	94,466
Inventories	0	10,038	10,038
Capital assets, net of accumulated depreciation	1,465,161	78,111	1,543,272
<b>Total Assets</b>	<b>6,570,584</b>	<b>136,695</b>	<b>6,707,279</b>
<b>Liabilities</b>			
Accounts payable	24,447	0	24,447
Due to other governments	142,443	0	142,443
Salaries and benefits payable	400,308	7,448	407,756
Deferred revenue			
Succeeding year property tax	2,497,106	0	2,497,106
Unearned revenue	0	3,969	3,969
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	51,885	0	51,885
Portion due after one year:			
Early retirement payable	238,390	0	238,390
Net OPEB liability	53,000	0	53,000
<b>Total Liabilities</b>	<b>3,407,579</b>	<b>11,417</b>	<b>3,418,996</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,465,161	78,111	1,543,272
Restricted for:			
Categorical funding	93,330	0	93,330
Management levy	129,450	0	129,450
Physical plant and equipment levy	192,031	0	192,031
Capital projects	451,296	0	451,296
Other special revenue purposes	133,720	0	133,720
Unrestricted	698,017	47,167	745,184
<b>Total Net Assets</b>	<b>\$ 3,163,005</b>	<b>125,278</b>	<b>3,288,283</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular instruction	\$ 2,632,398	205,474	665,183	0	(1,761,741)	0	(1,761,741)
Special instruction	770,687	0	92,804	0	(677,883)	0	(677,883)
Other instruction	633,872	162,868	119,250	0	(351,754)	0	(351,754)
	<u>4,036,957</u>	<u>368,342</u>	<u>877,237</u>	<u>0</u>	<u>(2,791,378)</u>	<u>0</u>	<u>(2,791,378)</u>
Support services:							
Student	16,747	0	0	0	(16,747)	0	(16,747)
Instructional staff	165,865	0	0	0	(165,865)	0	(165,865)
Administration	524,511	0	0	0	(524,511)	0	(524,511)
Operation and maintenance of plant	350,609	0	0	0	(350,609)	0	(350,609)
Transportation	243,627	0	0	0	(243,627)	0	(243,627)
	<u>1,301,359</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,301,359)</u>	<u>0</u>	<u>(1,301,359)</u>
Other expenditures:							
Facilities acquisitions	105,223	0	0	7,000	(98,223)	0	(98,223)
AEA flowthrough	223,493	0	223,493	0	0	0	0
	<u>328,716</u>	<u>0</u>	<u>223,493</u>	<u>7,000</u>	<u>(98,223)</u>	<u>0</u>	<u>(98,223)</u>
Total governmental activities	<u>5,667,032</u>	<u>368,342</u>	<u>1,100,730</u>	<u>7,000</u>	<u>(4,190,960)</u>	<u>0</u>	<u>(4,190,960)</u>
Business Type activities:							
Non-instructional programs:							
Nutrition services	246,634	148,604	103,978	0	0	5,948	5,948
Total business type activities	<u>246,634</u>	<u>148,604</u>	<u>103,978</u>	<u>0</u>	<u>0</u>	<u>5,948</u>	<u>5,948</u>
Total	<u>\$ 5,913,666</u>	<u>516,946</u>	<u>1,204,708</u>	<u>7,000</u>	<u>(4,190,960)</u>	<u>5,948</u>	<u>(4,185,012)</u>
<b>General Revenues and Transfers:</b>							
General Revenues:							
Local tax for:							
General purposes					\$ 2,228,568	0	2,228,568
Capital outlay					70,103	0	70,103
Income surtax					277,074	0	277,074
Statewide sales, services and use tax					352,729	0	352,729
Unrestricted state grants					1,323,558	0	1,323,558
Unrestricted investment earnings					11,161	60	11,221
Other					61,270	0	61,270
Transfers					(5,190)	5,190	0
Total general revenues and transfers					<u>4,319,273</u>	<u>5,250</u>	<u>4,324,523</u>
Change in net assets					128,313	11,198	139,511
Net assets beginning of year					<u>3,034,692</u>	<u>114,080</u>	<u>3,148,772</u>
Net assets end of year					<u>\$ 3,163,005</u>	<u>125,278</u>	<u>3,288,283</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	General	Management Levy	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments				
Cash and pooled investments	\$ 1,125,394	416,624	723,260	2,265,278
Receivables:				
Property tax:				
Delinquent	20,036	3,101	721	23,858
Succeeding year	2,223,287	200,000	73,819	2,497,106
Income surtax	224,715	0	0	224,715
Due from other governments	32,709	0	61,757	94,466
<b>Total Assets</b>	<b>\$ 3,626,141</b>	<b>619,725</b>	<b>859,557</b>	<b>5,105,423</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 15,756	0	8,691	24,447
Due to other governments	142,443	0	0	142,443
Salaries and benefits payable	400,308	0	0	400,308
Deferred revenue:				
Succeeding year property tax	2,223,287	200,000	73,819	2,497,106
Income surtax	224,715	0	0	224,715
Total liabilities	<b>3,006,509</b>	<b>200,000</b>	<b>82,510</b>	<b>3,289,019</b>
Fund balances:				
Reserved for:				
Categorical funding	93,330	0	0	93,330
Unreserved	526,302	419,725	777,047	1,723,074
Total fund balances	<b>619,632</b>	<b>419,725</b>	<b>777,047</b>	<b>1,816,404</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,626,141</b>	<b>619,725</b>	<b>859,557</b>	<b>5,105,423</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

<b>Total fund balances of governmental funds (page 20)</b>	\$ 1,816,404
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	1,465,161
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	224,715
Long-term liabilities, including early retirement and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(343,275)</u>
<b>Net assets of governmental activities (page 18)</b>	<u><u>\$ 3,163,005</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	General	Management Levy	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 2,186,842	299,150	422,832	2,908,824
Tuition	175,571	0	0	175,571
Other	64,489	10,438	243,338	318,265
State sources	1,862,942	177	41	1,863,160
Federal sources	509,461	0	0	509,461
Total revenues	<u>4,799,305</u>	<u>309,765</u>	<u>666,211</u>	<u>5,775,281</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	2,461,701	73,624	0	2,535,325
Special	713,520	0	0	713,520
Other	358,368	0	270,857	629,225
	<u>3,533,589</u>	<u>73,624</u>	<u>270,857</u>	<u>3,878,070</u>
Support services:				
Student	16,747	0	0	16,747
Instructional staff	127,684	0	0	127,684
Administration	526,271	0	470	526,741
Operation and maintenance of plant	298,449	33,064	9,162	340,675
Transportation	174,460	7,538	93,613	275,611
	<u>1,143,611</u>	<u>40,602</u>	<u>103,245</u>	<u>1,287,458</u>
Other expenditures:				
Facilities acquisitions	0	0	314,586	314,586
AEA flowthrough	223,493	0	0	223,493
	<u>223,493</u>	<u>0</u>	<u>314,586</u>	<u>538,079</u>
Total expenditures	<u>4,900,693</u>	<u>114,226</u>	<u>688,688</u>	<u>5,703,607</u>
Excess (deficiency) of revenues over (under) expenditures	(101,388)	195,539	(22,477)	71,674
Other financing sources:				
Sale of equipment	7,099	0	0	7,099
Total other financing sources	<u>7,099</u>	<u>0</u>	<u>0</u>	<u>7,099</u>
Net change in fund balances	(94,289)	195,539	(22,477)	78,773
Fund balance beginning of year	713,921	224,186	799,524	1,737,631
Fund balance end of year	<u>\$ 619,632</u>	<u>419,725</u>	<u>777,047</u>	<u>1,816,404</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

Net change in fund balances - total governmental funds (page 22) \$ 78,773

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

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

Depreciation expense	\$ (159,687)	
Capital outlay expenditures	376,324	216,637

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.	19,650
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ (133,747)	
Other Postemployment Benefits	(53,000)	(186,747)

Changes in net assets of governmental activities (page 19) \$ 128,313

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2010

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 48,546
Inventories	10,038
Capital assets, net of accumulated depreciation	78,111
<b>Total Assets</b>	<u>136,695</u>
<b>Liabilities</b>	
Salaries and benefits payable	7,448
Unearned revenues	3,969
<b>Total Liabilities</b>	<u>11,417</u>
<b>Net Assets</b>	
Invested in capital assets	78,111
Unrestricted	47,167
<b>Total Net Asset</b>	<u>\$ 125,278</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 146,929
Miscellaneous	1,675
TOTAL OPERATING REVENUES	148,604
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	66,878
Benefits	28,745
Services	1,612
Supplies	139,860
Depreciation	9,539
	246,634
TOTAL OPERATING EXPENSES	246,634
OPERATING LOSS	(98,030)
NON-OPERATING REVENUES:	
State sources	2,235
Federal sources	101,743
Interest income	60
TOTAL NON-OPERATING REVENUES	104,038
Net income before other financing sources	6,008
OTHER FINANCING SOURCES:	
Capital contributions	5,190
	11,198
Changes in net assets	11,198
Net assets beginning of year	114,080
Net assets end of year	\$ 125,278

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 148,688
Cash received from miscellaneous operating activities	1,675
Cash payments to employees for services	(99,164)
Cash payments to suppliers for goods or services	(118,899)
Net cash used in operating activities	(67,700)
Cash flows from non-capital financing activities:	
State grants received	2,235
Federal grants received	81,969
Net cash provided by non-capital financing activities	84,204
Cash flows from investing activities:	
Interest on investments	60
Net increase in cash and cash equivalents	16,564
Cash and cash equivalents at beginning of year	31,982
Cash and cash equivalents at end of year	\$ 48,546
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:	
Operating loss	\$ (98,030)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:	
Commodities consumed	19,774
Depreciation	9,539
Decrease in inventories	2,799
Decrease in salaries and benefits payable	(3,541)
Increase in unearned revenue	1,759
Net cash used in operating activities	\$ (67,700)

During the year ended June 30, 2010, the District received Federal commodities valued at \$19,774.

During the year ended June 30, 2010, the Nutrition Fund received capital contributions from the PPEL Fund totaling \$5,190.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2010

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 48,952	1,686
LIABILITIES		
Due to other groups	0	1,686
NET ASSETS		
Reserved for scholarships	\$ 48,952	0

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ 1,386
Contributions	<u>10,729</u>
Total additions	<u>12,115</u>
Deductions:	
Non-instructional:	
Scholarships awarded	<u>8,976</u>
Change in net assets	3,139
Net assets beginning of year	<u>45,813</u>
Net assets end of year	<u>\$ 48,952</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

The Montezuma Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Montezuma, Iowa, and the predominate agricultural territory in a portion of Poweshiek County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

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

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operation.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

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

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Land improvements	3,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

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

Asset Class	Estimated Useful Life (In Years)
Buildings	30 years
Land improvements	15 years
Machinery and equipment	5-12 years
Intangibles	5-12 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized

since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information

#### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$2,170,127 under the Investment Company Act of 1940.

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

**(3) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 168,815	1,058	0	169,873
Construction in progress	21,187	227,897	0	249,084
Total capital assets not being depreciated	<u>190,002</u>	<u>228,955</u>	<u>0</u>	<u>418,957</u>
Capital assets being depreciated:				
Buildings	3,241,986	6,950	0	3,248,936
Land improvements	139,172	8,443	0	147,615
Machinery and equipment	893,335	131,976	127,939	897,372
Total capital assets being depreciated	<u>4,274,493</u>	<u>147,369</u>	<u>127,939</u>	<u>4,293,923</u>
Less accumulated depreciation for:				
Buildings	2,535,692	61,015	0	2,596,707
Land improvements	70,547	7,240	0	77,787
Machinery and equipment	609,732	91,432	127,939	573,225
Total accumulated depreciation	<u>3,215,971</u>	<u>159,687</u>	<u>127,939</u>	<u>3,247,719</u>
Total capital assets being depreciated, net	<u>1,058,522</u>	<u>(12,318)</u>	<u>0</u>	<u>1,046,204</u>
Governmental activities capital assets, net	<u>\$ 1,248,524</u>	<u>216,637</u>	<u>0</u>	<u>1,465,161</u>
Business type activities:				
Machinery and equipment	\$ 156,704	5,190	0	161,894
Less accumulated depreciation	74,244	9,539	0	83,783
Business type activities capital assets, net	<u>\$ 82,460</u>	<u>(4,349)</u>	<u>0</u>	<u>78,111</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 2,329
Other	750
Support services:	
Administration	10,514
Operation and maintenance of plant	14,819
Transportation	63,020
	<u>91,432</u>
Unallocated depreciation	<u>68,255</u>
Total governmental activities depreciation expense	<u>\$ 159,687</u>
Business type activities:	
Food services	<u>\$ 9,539</u>

**(4) Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Net OPEB Liability	\$ 0	53,000	0	53,000	0
Early retirement	156,528	191,632	57,885	290,275	51,855
Total	<u>\$ 156,528</u>	<u>244,632</u>	<u>57,885</u>	<u>343,275</u>	<u>51,855</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2010, totaled \$57,885. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(5) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered payroll for the years ended June 30, 2010, 2009

and 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$199,462, \$182,688, and \$155,799 respectively, equal to the required contributions for each year.

**(6) 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 67 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

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

Annual required contribution	\$ 126,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	126,000
Contributions made	<u>(73,000)</u>
Increase in net OPEB obligation	53,000
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u><u>\$ 53,000</u></u>

For the 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 \$73,000 to the plan. Plan members eligible for benefits contributed \$18,000 or 19.8% of premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$126,000	57.9%	\$53,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$831,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$831,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.455 million and the ratio of the UAAL to covered payroll was 33.9%. As of June 30, 2010 there were no trust fund assets.

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

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

As of the July 1, 2009 actuarial valuation date, the alternative cost method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed based upon sample rates varying by the age and employee type.

Projected claim costs of the medical plan are \$762 per month for retirees less than age 65 and \$422 per year for retirees who have attained age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(7) 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.

**(8) 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 \$223,493 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(9) Categorical Funding**

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

Project	Amount
Talented and gifted	\$ 33,664
Salary improvement program	24,468
Professional development for model core curriculum	3,371
Professional development	<u>31,827</u>
Total	<u><u>\$ 93,330</u></u>

**(10) Construction Commitment**

The District has entered into various contracts totaling \$450,000 for the construction of a bus barn. As of June 30, 2010, costs of \$249,084 in architect and construction fees had been incurred against the contracts. The balance of \$200,916 remaining at June 30, 2010 will be paid as work on the project progresses. The total cost of the new barn will be added to the District's fixed asset listing upon completion. Part of the architect fees were also for other future projects being considered by the District.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
<b>Revenues:</b>						
Local sources	\$ 3,402,660	148,664	3,551,324	3,514,783	3,514,783	36,541
Intermediate sources	0	0	0	0	0	0
State sources	1,863,160	2,235	1,865,395	2,218,347	2,218,347	(352,952)
Federal sources	509,461	101,743	611,204	180,000	180,000	431,204
Total revenues	5,775,281	252,642	6,027,923	5,913,130	5,913,130	114,793
<b>Expenditures/expenses:</b>						
Instruction	3,878,070	0	3,878,070	4,284,500	4,284,500	406,430
Support services	1,287,458	0	1,287,458	1,613,000	1,613,000	325,542
Non-instructional programs	0	246,634	246,634	300,000	300,000	53,366
Other expenditures	538,079	0	538,079	1,296,671	1,296,671	758,592
Total expenditures/expenses	5,703,607	246,634	5,950,241	7,494,171	7,494,171	1,543,930
Excess(deficiency) of revenues over(under) expenditures/expenses	71,674	6,008	77,682	(1,581,041)	(1,581,041)	1,658,723
Other financing sources(uses), net	7,099	5,190	12,289	0	0	12,289
Excess of revenues and other financing sources(uses) over expenditures/expenses	78,773	11,198	89,971	(1,581,041)	(1,581,041)	1,671,012
Balance beginning of year	1,737,631	114,080	1,851,711	2,078,055	2,078,055	(226,344)
Balance end of year	\$ 1,816,404	125,278	1,941,682	497,014	497,014	1,444,668

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

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

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

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

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS FOR THE  
 RETIREE HEALTH PLAN (IN THOUSANDS)  
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAA) (b-a)			
2010	July 1, 2009	-	\$ 831	831	0.0%	\$ 2,455	33.9%

See Note 6 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds				Total
	Physical			Capital	Other
	Student	Equipment	Total	Projects	Nonmajor
	Activity	Levy	Revenue		Governmental
					Funds
<b>Assets</b>					
Cash and pooled investments	\$ 135,342	195,265	330,607	392,653	723,260
Receivables:					
Property tax:					
Delinquent	0	721	721	0	721
Succeeding year	0	73,819	73,819	0	73,819
Due from other governments	0	0	0	61,757	61,757
<b>Total Assets</b>	<b>\$ 135,342</b>	<b>269,805</b>	<b>405,147</b>	<b>454,410</b>	<b>859,557</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 1,622	3,955	5,577	3,114	8,691
Deferred revenue:					
Succeeding year property tax	0	73,819	73,819	0	73,819
Total liabilities	1,622	77,774	79,396	3,114	82,510
Fund balances:					
Unreserved	133,720	192,031	325,751	451,296	777,047
Total fund balances	133,720	192,031	325,751	451,296	777,047
<b>Total Liabilities and Fund Balances</b>	<b>\$ 135,342</b>	<b>269,805</b>	<b>405,147</b>	<b>454,410</b>	<b>859,557</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Special Revenue Funds				Total
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	\$ 0	70,103	70,103	352,729	422,832
Other	235,600	203	235,803	7,535	243,338
State sources	0	41	41	0	41
TOTAL REVENUES	235,600	70,347	305,947	360,264	666,211
EXPENDITURES:					
Current:					
Instruction:					
Other	270,857	0	270,857	0	270,857
Administration services	0	470	470	0	470
Operation and maintenance of plant services	0	9,162	9,162	0	9,162
Transportation	0	0	0	93,613	93,613
Other expenditures:					
Facilities acquisitions	0	24,348	24,348	290,238	314,586
TOTAL EXPENDITURES	270,857	33,980	304,837	383,851	688,688
NET CHANGE IN FUND BALANCES	(35,257)	36,367	1,110	(23,587)	(22,477)
FUND BALANCES BEGINNING OF YEAR	168,977	155,664	324,641	474,883	799,524
FUND BALANCES END OF YEAR	\$ 133,720	192,031	325,751	451,296	777,047

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
JH heritage trip	\$ 31,185	338	31,220	303
Curtain callers	4,563	3,218	2,934	4,847
Winterguard fund	206	2,817	2,595	428
Instrumental music	274	18	0	292
Vocal music	4,665	2,359	2,342	4,682
Band uniforms	7,729	304	0	8,033
Athletics	39,756	59,268	69,863	29,161
Football	4,576	6,510	7,561	3,525
District 6 football	199	600	261	538
Baseball	1,250	5,280	5,195	1,335
Golf team	186	1,263	860	589
Boys basketball	2,929	5,370	5,911	2,388
Girls BB camp	2,108	9,607	9,071	2,644
Volleyball	2,073	3,196	4,685	584
Girls Softball Fund	245	1,811	2,056	0
Wrestling	4,722	6,049	5,293	5,478
German club	1,354	0	332	1,022
Class of 2013	0	9	0	9
Class of 2012	66	545	106	505
Class of 2011	346	10,756	9,485	1,617
Class of 2010	712	155	412	455
Class of 2009	597	0	597	0
Torch club	0	328	0	328
FFA	26,508	49,968	51,801	24,675
FCCLA	0	2,224	2,224	0
JH student council	1,437	70	436	1,071
HS student council	682	1,940	999	1,623
Cheerleaders	1,132	3,898	4,164	866
School Clay Target Shooting Club	3,413	19,115	19,070	3,458
Spanish club	5,248	7,670	3,973	8,945
Summer recreation	2,028	5,525	4,198	3,355
Publications	10,447	17,537	18,803	9,181
Elementary activities	7,425	7,438	3,494	11,369
High School activities	0	277	0	277
Now Account	140	55	140	55
Interest	776	82	776	82
 Total	 \$ 168,977	 235,600	 270,857	 133,720

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund				
	Rempp Scholarship	Ellis Scholarship	AFS Scholarship	Elementary Playground	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 750	37,364	3,085	7,753	48,952
<b>LIABILITIES</b>					
	0	0	0	0	0
<b>NET ASSETS</b>					
Reserved for scholarships	\$ 750	37,364	3,085	7,753	48,952

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust - Scholarship Fund				Total
	Rempp Scholarship	Ellis Scholarship	AFS Scholarship	Playground Fund	
Additions:					
Local sources:					
Interest	\$ 0	1,300	86	0	1,386
Contributions	1,500	0	1,350	7,879	10,729
	1,500	1,300	1,436	7,879	12,115
Deductions:					
Non-instructional:					
Scholarships awarded	2,500	5,000	1,350	126	8,976
Changes in net assets	(1,000)	(3,700)	86	7,753	3,139
Net assets beginning of year	1,750	41,064	2,999	0	45,813
Net assets end of year	\$ 750	37,364	3,085	7,753	48,952

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2010

	Beginning Balance	Additions	Deductions	Ending Balance
<b>FLOWER FUND</b>				
Assets:				
Cash and other investments	\$ 1,572	226	112	1,686
Liabilities:				
Due to other groups	\$ 1,572	226	112	1,686

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
<b>Revenues:</b>							
Local sources:							
Local tax	\$ 2,908,824	2,677,068	2,499,083	2,585,499	2,370,528	2,467,051	1,859,848
Tuition	175,571	349,736	362,711	378,226	300,238	356,290	335,115
Other	318,265	359,801	351,247	451,429	416,211	272,098	723,866
Intermediate	0	0	0	0	0	4,961	0
State	1,863,160	2,043,153	2,320,267	2,157,497	2,147,777	2,130,751	1,984,365
Federal	509,461	138,657	118,463	148,140	143,666	132,406	125,043
Total	<u>\$ 5,775,281</u>	<u>5,568,415</u>	<u>5,651,771</u>	<u>5,720,791</u>	<u>5,378,420</u>	<u>5,363,557</u>	<u>5,028,237</u>
<b>Expenditures:</b>							
Instruction:							
Regular	\$ 2,535,325	2,425,972	2,203,299	2,121,232	2,144,063	1,939,282	1,856,224
Special	713,520	696,045	566,180	651,536	756,251	817,580	820,977
Other	629,225	573,556	814,922	783,579	573,994	579,420	593,525
Support services:							
Student	16,747	16,852	6,546	26,394	31,655	61,655	60,648
Instructional staff	127,684	141,070	117,671	134,386	97,900	127,590	125,909
Administration	526,741	506,252	512,779	558,228	455,873	522,741	495,998
Operation and maintenance							
of plant	340,675	505,780	359,518	367,355	375,074	293,112	340,600
Transportation	275,611	187,366	305,327	199,974	220,386	156,137	149,656
Non-instructional:	0	0	0	400	0	0	0
Other expenditures:							
Facilities acquisition	314,586	301,374	217,052	216,474	243,510	127,630	65,456
Long-term debt:							
Principal	0	0	11,239	10,802	57,126	213,784	145,000
Interest	0	0	455	893	2,218	6,922	13,278
AEA flowthrough	223,493	175,942	173,783	166,591	162,058	158,921	159,207
Total	<u>\$ 5,703,607</u>	<u>5,530,209</u>	<u>5,288,771</u>	<u>5,237,844</u>	<u>5,120,108</u>	<u>5,004,774</u>	<u>4,826,478</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

Grantor/ Program	CFDA Number	Grant Number	Expendi- tures
Direct:			
U.S. Department of Education:			
Rural Education Achievement Program	84.358	FY10	\$ 34,772
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	13,678
National School Lunch Program	10.555	FY10	88,065 *
			<u>101,743</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	44,392
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	14,697
			<u>59,089</u>
Career and Technical Education - Basic Grants to State:	84.048	FY10	4,100
Safe and Drug-Free Schools and Communities-State Grants	84.186	FY10	1,248
Improving Teacher Quality State Grants	84.367	FY10	26,041
Grants for State Assessment and Related Activities	84.369	FY10	3,380
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act	84.394	FY10	273,262
Area Education Agency			
Special Education Cluster:			
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	67,593
Special Education - Grants to States	84.027	FY10	24,581
			<u>92,174</u>
Total			<u>\$ 595,809</u>

\* - Includes \$19,744 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education of the  
Montezuma Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 10, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montezuma Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Montezuma Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Montezuma Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 discussed in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 the internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

Compliance and Other Matters

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

immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings.

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.

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

December 10, 2010

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

To the Board of Education of the  
Montezuma Community School District:

Compliance

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

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

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

Internal Control Over Compliance

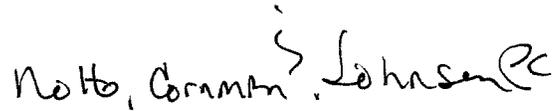
The management of Montezuma Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Montezuma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

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

December 10, 2010

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTION COSTS  
YEAR ENDED JUNE 30, 2010

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

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

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

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - While it is true that many duties are handled by one individual, it should also be noted that most of the District's revenues are received by direct deposit to its bank accounts, and that the state and federal funds are verified by district personnel other than the business manager as part of the year end reporting cycle. Regardless, the challenges of attaining adequate segregation of duties in a small office are noted, and the District will continue to work towards improvement.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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

Part III: findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-CONPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

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

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

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response – By their nature Federal Awards are more tightly controlled than the District's regular programs. The lunch and breakfast programs are run as for-profit entities. Therefore, it is the responsibility of the food service manager to review the monthly accounting statements for the program and to verify receipt of state and federal reimbursements. The ARRA stabilization funds are recorded by the business manager, but another individual in the business office verifies receipts and expenditures for the ARRA grants and prepares the required federal reports. For both types of awards, revenues are received by direct deposit. Regardless, the challenges of attaining adequate segregation of duties in a small office are noted, and the District will continue to work towards improvement.

Conclusion – Response accepted.

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

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Certified Budget - District expenditures for the year ended June 30, 2010 did not exceed the certified amounts in the functional areas.
- IV-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-10 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-10 Certified Enrollment – We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-10 Supplementary Weighting – We noted an overstatement of 45.15 students regarding the supplementary weighting certified to the Iowa Department of Education.
- Recommendation – The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.
- Response – The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.
- Conclusion – Response accepted.
- IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales and Service Tax – During our audit, there was no instances of non-compliance noted with the use of the statewide sales and services tax revenue provisions Chapter 423F.3 of the Code of Iowa.

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

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

Beginning Balance		\$	0
Statewide sales and services tax revenue			<u>352,729</u>
Expenditures/transfers out:			
School infrastructures:			
Land	1,058		
Vehicles	93,613		
Equipment	47,841		
Building Construction and Repair	<u>210,217</u>		<u>352,729</u>
Ending Balance		\$	<u>0</u>
		Per \$1,000	Property
		of Taxable	Tax
		Valuation	Dollars
Physical plant and equipment levy		<u>\$ 1.34000</u>	<u>\$ 285,485</u>

IV-M-10 Student Activity Fund – In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program. The District received target donations to be used for instructional supplies; these would be more appropriately handled in the General Fund.

Recommendation - The District should handle target donations in the General Fund.

Response – The District will report Target donations in the General Fund as requested.

Conclusion – Response accepted.