

MOUNT AYR 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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**Mount Ayr Community School District
Board of Education and School District Officials
Year Ended June 30, 2010**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Before September, 2009 Election:		
Larry Giles	President	2011*
David Richards	Vice President	2009
Rodney Shields	Board Member	2009
James Uhlenkamp	Board Member	2011
Patricia West	Board Member	2011
After September, 2009 Election:		
Rodney Shields	President	2013
James Uhlenkamp	Vice President	2012
Larry Giles	Board Member	2011
Patricia West	Board Member	2012
Duane Shafer	Board Member	2013
School District Officials		
Russell Reiter	Superintendent	2010
Janette Campbell	District Secretary/Treasurer	2010
James Pederson	Attorney	Indefinite

* Board term extended per the District's transition plan for changing Board terms from three to four years in accordance with Chapter 39.24 of the Code of Iowa.



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Mount Ayr Community School District
Mount Ayr, Iowa

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Mount Ayr 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 *Governmental Auditing Standards*, we have also issued our report dated November 30, 2010, on our consideration of the Mount Ayr Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 5-12 and 40-42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mount Ayr 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 eight years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 30, 2010

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

2010 FINANCIAL HIGHLIGHTS

General Fund revenues decreased from \$7,218,329 in fiscal 2009 to \$7,082,156 in fiscal 2010. General Fund expenditures decreased from \$7,327,958 in fiscal 2009 to \$6,827,535 in fiscal 2010. The District's General Fund balance increased from \$69,018 in fiscal 2009 to \$323,439 in fiscal 2010.

The decrease in General Fund revenues was attributable to declining enrollment and State budget cuts. The decrease in expenditures was due primarily to staff reduction and fewer purchases.

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 the Mount Ayr 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 Mount Ayr 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 Mount Ayr Community School District acts solely as an agent or custodian for the benefit of those outside of the District.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, the Schedule of Federal Awards provides details of various federal programs benefiting the District.

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

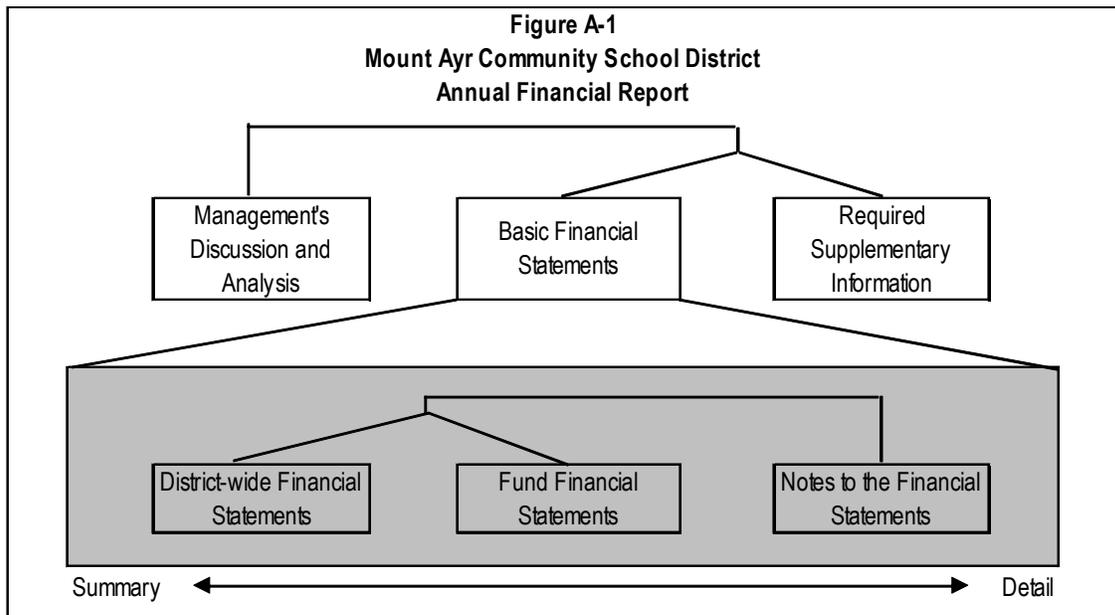


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2				
Major Features of the District-wide and Fund Financial Statements				
	District-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 the special education and building maintenance	Activities the district operates similar to private businesses: food services and student construction	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures, and changes in fund balances	* Statement of net assets * Statement of revenues, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year; or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid
Common names of district funds included	All funds with the exception of scholarship funds	General, PPEL, Management, Schoolhouse, Student Activity, Debt Service, Capital Projects	Nutrition Fund, Farm Enterprise Account, Student Construction Fund	Burnett Scholarship, Brewer Scholarship, Anderson Scholarship, Bowersox Scholarship

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3							
Condensed Statement of Net Assets							
	Governmental activities		Business type		Total		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current assets	\$ 6,263,728	12,287,314	69,162	77,651	6,332,890	12,364,965	-48.8%
Capital assets, net	14,447,567	10,125,124	41,554	28,891	14,489,121	10,154,015	42.7%
Other noncurrent assets	96,012	47,320	1,618	-	97,630	47,320	106.3%
Total assets	20,807,307	22,459,758	112,334	106,542	20,919,641	22,566,300	-7.3%
Current liabilities	4,861,940	8,585,421	27,674	28,516	4,889,614	8,613,937	-43.2%
Long-term liabilities	8,801,704	6,442,995	-	-	8,801,704	6,442,995	36.6%
Total liabilities	13,663,644	15,028,416	27,674	28,516	13,691,318	15,056,932	-9.1%
Net assets:							
Invested in capital assets, net of related debt	6,405,203	6,795,596	41,554	28,891	6,446,757	6,824,487	-5.5%
Restricted	494,152	779,493	-	-	494,152	779,493	-36.6%
Unrestricted	244,308	(143,747)	43,106	49,135	287,414	(94,612)	403.8%
Total net assets	\$ 7,143,663	7,431,342	84,660	78,026	7,228,323	7,509,368	-3.7%

The District's combined net assets decreased by nearly 3.7%, or approximately \$281,045 over the prior year. The largest portion of the District's net assets is invested in capital assets, e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$285,341, or 36.6% over the prior year. The decrease was primarily a result of the ongoing building project in the Capital Projects Fund. Most of the funds generated from the sale of bonds have been spent on the building project. This has resulted in a smaller fund balance for the Capital Projects Fund.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints by debt covenants, enabling legislation or other legal requirements) increased approximately \$382,026 or 403.8%.

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

Figure A-4							
Changes in Net Assets							
	Governmental Activities		Business type Activities		Total District		Total Change
	Year ended June 30,	2009	Year ended June 30,	2009	Year ended June 30,	2009	June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Revenues:							
Program revenues:							
Charges for service and sales	\$ 747,570	772,533	158,598	170,350	906,168	942,883	-3.9%
Operating grants, contributions and restricted interest	1,629,526	1,227,754	218,417	196,321	1,847,943	1,424,075	29.8%
General revenues:							
Property tax	3,327,664	3,332,296	-	-	3,327,664	3,332,296	-0.1%
Local option sales and services tax	368,364	421,012	-	-	368,364	421,012	-12.5%
Unrestricted states grants	2,121,561	2,639,316	-	-	2,121,561	2,639,316	-19.6%
Unrestricted investment earnings	74,901	264,443	-	68	74,901	264,511	-71.7%
Other	215,723	598,495	-	-	215,723	598,495	-64.0%
Total revenues	<u>8,485,309</u>	<u>9,255,849</u>	<u>377,015</u>	<u>366,739</u>	<u>8,862,324</u>	<u>9,622,588</u>	<u>-7.9%</u>
Program expenses:							
Governmental activities:							
Instruction	5,121,690	5,304,810	-	-	5,121,690	5,304,810	-3.5%
Support services	2,383,127	2,346,040	-	-	2,383,127	2,346,040	1.6%
Non-instructional programs	25,479	23,294	370,381	350,748	395,860	374,042	5.8%
Other expenses	1,242,692	558,814	-	-	1,242,692	558,814	122.4%
Total expenses	<u>8,772,988</u>	<u>8,232,958</u>	<u>370,381</u>	<u>350,748</u>	<u>9,143,369</u>	<u>8,583,706</u>	<u>6.5%</u>
Change in net assets	(287,679)	1,022,891	6,634	15,991	(281,045)	1,038,882	-127.1%
Net assets beginning of year	<u>7,431,342</u>	<u>6,408,451</u>	<u>78,026</u>	<u>62,035</u>	<u>7,509,368</u>	<u>6,470,486</u>	<u>16.1%</u>
Net assets end of year	<u>\$ 7,143,663</u>	<u>7,431,342</u>	<u>84,660</u>	<u>78,026</u>	<u>7,228,323</u>	<u>7,509,368</u>	<u>-3.7%</u>

Property tax and unrestricted state grants account for 61.49% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 82.08% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$8,485,309 and expenses were \$8,772,988. In a difficult budget year, the District was able to balance the budget by securing grants for increased revenues and using carryover balances.

The cost financed by users of the District's programs was \$747,570.

Federal and state governments subsidized certain programs with grants and contributions totaling \$1,629,526.

The net cost of governmental activities was financed with \$3,696,028 in property and other taxes and \$2,121,561 in unrestricted state grant.

Business Type Activities

Revenues for business type activities were \$377,015 and expenses were \$370,381. The District's business type activities include the School Nutrition Fund and Student Construction Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The district increased meal prices in 2009-2010. This increase has resulted in increased revenue to the School Nutrition Fund which the District will utilize in the future replacement of obsolete kitchen equipment. The District has also increased revenues in the business type activities with the additional student construction project work.

The following table (Figure A-5) presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-2010	2010	2009	Change 2009-2010
Instruction	\$ 5,121,690	5,304,810	-3.5%	3,014,765	3,579,612	-15.8%
Support services	2,383,127	2,346,040	1.6%	2,380,161	2,319,344	2.6%
Non-instructional programs	25,479	23,294	9.4%	25,479	23,294	9.4%
Other expenses	1,242,692	558,814	122.4%	975,487	310,421	214.2%
Totals	\$ 8,772,988	8,232,958	6.6%	6,395,892	6,232,671	2.6%

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,862,149, under last year's ending fund balances of \$4,004,532. The primary reason for the decrease in combined fund balances in fiscal 2010 is due the monies being spent for the Elementary/Secondary building project out of the Capital Projects Construction Fund.

Governmental Fund Highlights

The District's General Fund financial position has strengthened compared to the 2008-2009 school year. The General Fund balance increased from \$69,018 in 2008-2009 to \$323,439. By implementing budget cuts and increasing revenues through property taxes, the district was able to end the 2009-2010 fiscal year with a positive balance.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$ 16,161 in fiscal 2009 to \$27,992 in fiscal 2010. The District levied for the PPEL Fund and used some of those funds to help fund items that typically could be paid from the General Fund. There was a net change in fund balance of \$11,831.

The Capital Projects Fund balance decreased from \$3,772,940 in 2009 to \$1,277,598 in 2010 due to the expenditures associated with the Elementary/Secondary building project.

Proprietary Fund Highlights

Proprietary Fund net assets increased from \$78,026 at June 30, 2009 to \$84,660 at June 30, 2010, representing an increase of approximately 8.5%. As previously noted, the District increased meal prices in 2009-2010 and has reduced expenditures in the lunch program.

BUDGETARY HIGHLIGHTS

The District's receipts were \$11,750,026 which were \$2,740,342 more than budgeted receipts. The most significant variance resulted from the revenue through grants and Federal Stimulus Dollars.

Total expenditures were \$2,129,681 more than budgeted, due primarily to the Elementary/Secondary building project being completed by the end of the fiscal year along with grant and stimulus dollars being spent. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Funds. 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 ASSETS AND DEBT ADMINISTRATION

At June 30, 2010, the District had invested \$14.48 million, net of accumulated depreciation in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 42.7% from last year.

Figure A-6							
Capital Assets, net of Depreciation							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Land	\$ 145,185	145,185	-	-	145,185	145,185	0.0%
Construction in progress	-	4,054,222	-	-	-	4,054,222	-100.0%
Buildings	13,189,379	4,832,021	-	-	13,189,379	4,832,021	173.0%
Improvements other than buildings	125,128	132,174	-	-	125,128	132,174	-5.3%
Furniture and equipment	987,875	961,522	41,554	28,891	1,029,429	990,413	3.9%
Totals	\$ 14,447,567	10,125,124	41,554	28,891	14,489,121	10,154,015	42.7%

Long-Term Debt

At June 30, 2010, the district had \$9,056,232 in general obligation, revenue and other long-term debt outstanding. This represents an increase of approximately 38.3% from last year. (See Figure A-7).

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-2010
General obligation bonds	\$ 6,250,000	6,480,000	-3.5%
Revenue bonds	2,765,000	-	-
Capital loan notes	41,232	67,134	-38.6%
Totals	\$ 9,056,232	6,547,134	38.3%

On October 1, 2001 the District authorized Energy Management Improvement Capital Loan Notes in the amount of \$225,000 bearing interest and maturing each year until December 1, 2011. In March of 2008, the District approved General Obligation School Bonds in the amount of \$6,700,000 and maturing each year until May 1, 2028. In September of 2009, the District passed School Infrastructure Sales, Services, and Use Tax Revenue Bonds in the amount of \$2,885,000. Those bonds will mature each year until July 1, 2029.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

The district added a middle school gymnasium and locker rooms to the secondary facility and replaced the 1936 elementary building with new classrooms, lunchroom, multi-purpose facility and office space. The \$6.7 million dollar will increase the levy \$2.84 per thousand for the twenty year bond. The project was completed with the Infrastructure and Use Tax Revenue Bonds of \$2,885,000.

The Mount Ayr Community School District's enrollment decreased slightly for the 2009-2010 school year. The districts certified enrollment also decreased this year and steps are being taken to reduce spending throughout the general fund.

Economically, the County has been affected by the economic crisis that is affecting the state and the country. Federal stimulus dollars have helped with budgets during the year. Ringgold County built a new hospital and is in the process of building a new county-wide law enforcement center. Heartland Energy has begun production of wind turbine blades and plan to expand into solar, hydrogen, biomass solutions and motion based propulsion in the future. We believe this will continue solid growth for the community, which should result in job opportunities and increased student enrollment.

The Board of Directors approved the .34¢ PPEL levy for the 2010-11 school year but is committed in keeping property taxes as low as possible.

The districts valuations increased from \$189,450,790 to \$197,066,067 for the 2009-2010 school year.

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 Janette Campbell, District Secretary/Treasurer and Business Manager, Mount Ayr Community School District, 1001 East Columbus Street, Mount Ayr, IA 50854.

Basic Financial Statements

Mount Ayr Community School District
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,384,489	46,758	2,431,247
Receivables:			
Property tax:			
Delinquent	56,279	-	56,279
Succeeding year	3,294,490	-	3,294,490
Accounts	113,682	-	113,682
Due from other governments	414,788	-	414,788
Inventories	-	22,404	22,404
Total current assets	<u>6,263,728</u>	<u>69,162</u>	<u>6,332,890</u>
Noncurrent assets:			
Bond issuance costs	38,877	-	38,877
Bond discount	36,653	-	36,653
Other postemployment benefits	20,482	1,618	22,100
Capital assets:			
Capital assets - nondepreciable	145,185	-	145,185
Capital assets - depreciable, net	14,302,382	41,554	14,343,936
Total non current assets	<u>14,543,579</u>	<u>43,172</u>	<u>14,586,751</u>
Total assets	<u>\$ 20,807,307</u>	<u>112,334</u>	<u>20,919,641</u>
Liabilities			
Current liabilities:			
Excess of outstanding warrants over balance	\$ 6,522	-	6,522
Accounts payable	145,147	23,222	168,369
Salaries and benefits payable	651,770	4,452	656,222
Due to other governments	45,163	-	45,163
Accrued interest payable	45,009	-	45,009
Deferred revenue:			
Succeeding year property tax	3,294,490	-	3,294,490
Other	210,393	-	210,393
General obligation bonds	240,000	-	240,000
Revenue bonds	145,000	-	145,000
Capital notes payable	27,161	-	27,161
Compensated absences payable	4,555	-	4,555
Early retirement	46,730	-	46,730
Total current liabilities	<u>4,861,940</u>	<u>27,674</u>	<u>4,889,614</u>
Noncurrent liabilities:			
General obligation bonds	6,010,000	-	6,010,000
Revenue bonds	2,620,000	-	2,620,000
Capital notes payable	14,071	-	14,071
Early retirement	157,633	-	157,633
Total noncurrent liabilities	<u>8,801,704</u>	<u>-</u>	<u>8,801,704</u>
Total liabilities	<u>13,663,644</u>	<u>27,674</u>	<u>13,691,318</u>

Exhibit A

**Mount Ayr Community School District
Statement of Net Assets
June 30, 2010**

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	6,405,203	41,554	6,446,757
Restricted for:			
Categorical funding	92,294	-	92,294
Physical plant and equipment levy	27,992	-	27,992
Other special revenue purposes	110,135	-	110,135
Capital projects	263,731	-	263,731
Unrestricted	244,308	43,106	287,414
Total net assets	7,143,663	84,660	7,228,323
Total liabilities and net assets	\$ 20,807,307	112,334	20,919,641

See notes to financial statements.

**Mount Ayr Community School District
Statement of Activities
Year ended June 30, 2010**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:						
Instruction:						
Regular	\$ 2,504,046	284,857	912,879	(1,306,310)	-	(1,306,310)
Special	1,288,105	110,937	384,074	(793,094)	-	(793,094)
Other	1,329,539	351,776	62,402	(915,361)	-	(915,361)
	<u>5,121,690</u>	<u>747,570</u>	<u>1,359,355</u>	<u>(3,014,765)</u>	<u>-</u>	<u>(3,014,765)</u>
Support Services:						
Student	218,827	-	-	(218,827)	-	(218,827)
Instructional staff	275,563	-	-	(275,563)	-	(275,563)
Administration	789,890	-	-	(789,890)	-	(789,890)
Operating and maintenance of plant	648,868	-	2,966	(645,902)	-	(645,902)
Transportation	449,979	-	-	(449,979)	-	(449,979)
	<u>2,383,127</u>	<u>-</u>	<u>2,966</u>	<u>(2,380,161)</u>	<u>-</u>	<u>(2,380,161)</u>
Non-instructional programs	<u>25,479</u>	<u>-</u>	<u>-</u>	<u>(25,479)</u>	<u>-</u>	<u>(25,479)</u>
Other expenditures:						
Facilities acquisition	576,461	-	-	(576,461)	-	(576,461)
Long-term debt interest	381,061	-	-	(381,061)	-	(381,061)
AEA flowthrough	267,205	-	267,205	-	-	-
Depreciation (unallocated)*	17,965	-	-	(17,965)	-	(17,965)
	<u>1,242,692</u>	<u>-</u>	<u>267,205</u>	<u>(975,487)</u>	<u>-</u>	<u>(975,487)</u>
Total governmental activities	<u>8,772,988</u>	<u>747,570</u>	<u>1,629,526</u>	<u>(6,395,892)</u>	<u>-</u>	<u>(6,395,892)</u>
Business type activities:						
Non-instructional programs:						
Nutrition services	369,561	158,305	218,417	-	7,161	7,161
Other enterprise services	820	293	-	-	(527)	(527)
Total business type activities	<u>370,381</u>	<u>158,598</u>	<u>218,417</u>	<u>-</u>	<u>6,634</u>	<u>6,634</u>
Total primary government	<u>\$ 9,143,369</u>	<u>906,168</u>	<u>1,847,943</u>	<u>(6,395,892)</u>	<u>6,634</u>	<u>(6,389,258)</u>

**Mount Ayr Community School District
Statement of Activities
Year ended June 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Totals from previous pages	<u>\$ 9,143,369</u>	<u>906,168</u>	<u>1,847,943</u>	(6,395,892)	6,634	(6,389,258)
General revenues:						
Property tax levied for:						
General purposes				2,904,562	-	2,904,562
Debt service				358,188	-	358,188
Capital outlay				64,914	-	64,914
Statewide sales, services and use tax				368,364	-	368,364
Unrestricted state grants				2,121,561	-	2,121,561
Contributions not restricted to specific programs				81,046	-	81,046
Unrestricted investment earnings				74,901	-	74,901
Gain on sale of capital assets				13,229	-	13,229
Other				121,448	-	121,448
Total general revenues				<u>6,108,213</u>	-	<u>6,108,213</u>
Change in net assets				(287,679)	6,634	(281,045)
Net assets beginning of year				<u>7,431,342</u>	<u>78,026</u>	<u>7,509,368</u>
Net assets end of year				<u>\$ 7,143,663</u>	<u>84,660</u>	<u>7,228,323</u>

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

See notes to financial statements.

Exhibit C

**Mount Ayr Community School District
Balance Sheet
Governmental Funds
June 30, 2010**

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Assets					
Cash and pooled investments	\$ 801,201	-	1,277,353	304,571	2,383,125
Receivables:					
Property tax:					
Delinquent	44,517	6,248	-	5,514	56,279
Succeeding year	2,717,058	359,065	-	218,367	3,294,490
Accounts	113,682	-	-	-	113,682
Due from other governments	385,032	-	29,756	-	414,788
Total assets	\$ 4,061,490	365,313	1,307,109	528,452	6,262,364
Liabilities and Fund Balances					
Liabilities:					
Excess of outstanding warrants over balance	\$ -	6,522	-	-	6,522
Accounts payable	113,667	-	29,511	1,969	145,147
Salaries and benefits payable	651,770	-	-	-	651,770
Due to other governments	45,163	-	-	-	45,163
Early retirement payable	-	-	-	46,730	46,730
Deferred revenue:					
Succeeding year property tax	2,717,058	359,065	-	218,367	3,294,490
Other	210,393	-	-	-	210,393
Total liabilities	3,738,051	365,587	29,511	267,066	4,400,215
Fund balances:					
Reserved for:					
Categorical funding	92,294	-	-	-	92,294
Debt service	-	(274)	-	-	(274)
Unreserved:					
Undesignated, reported in:					
General fund	231,145	-	-	-	231,145
Capital projects fund	-	-	1,277,598	-	1,277,598
Special revenue funds:					
Management fund	-	-	-	123,259	123,259
Student activity fund	-	-	-	110,135	110,135
Physical plant and equipment fund	-	-	-	27,992	27,992
Total fund balances	323,439	(274)	1,277,598	261,386	1,862,149
Total liabilities and fund balances	\$ 4,061,490	365,313	1,307,109	528,452	6,262,364

See notes to financial statements.

Exhibit D

**Mount Ayr Community School District
 Reconciliation of the Balance Sheet
 Governmental Funds to the Statement of Net Assets
 June 30, 2010**

Total fund balances of governmental funds (Exhibit C) \$ 1,862,149

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 14,447,567

The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 1,364

Long-term liabilities, including bonds and notes payable, compensated absences, other postemployment benefits and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:

General obligation bonds	\$	(6,250,000)	
Revenue bonds		(2,765,000)	
Capital loan notes		(41,232)	
Bond issuance cost		38,877	
Bond discount		36,653	
Accrued interest		(45,009)	
Early retirement		(204,363)	
Compensated absences		(4,555)	
Other postemployment benefits		20,482	
Portion of Early Retirement reflected on governmental funds		46,730	(9,167,417)

Net assets of governmental activities (Exhibit A) \$ 7,143,663

See notes to financial statements.

Mount Ayr Community School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2010

	General	Debt Service	Capital Projects	Non-major Governmental	Total
Revenues:					
Local sources:					
Local tax	\$ 2,655,021	358,188	368,364	314,455	3,696,028
Tuition	383,168	-	-	-	383,168
Other	275,534	65	27,929	336,481	640,009
Intermediate sources	30,171	-	-	-	30,171
State sources	2,875,798	198	-	175	2,876,171
Federal sources	846,533	-	-	-	846,533
Total revenues	7,066,225	358,451	396,293	651,111	8,472,080
Expenditures:					
Current:					
Instruction:					
Regular	2,253,870	-	-	45,103	2,298,973
Special	1,282,803	-	-	-	1,282,803
Other	945,638	-	-	360,335	1,305,973
	4,482,311	-	-	405,438	4,887,749
Support services:					
Student	214,196	-	-	-	214,196
Instructional staff	214,334	-	54,776	-	269,110
Administration	694,843	-	36,104	50,016	780,963
Operation and maintenance of plant	591,676	-	-	39,341	631,017
Transportation	362,970	-	-	7,872	370,842
	2,078,019	-	90,880	97,229	2,266,128
Other expenditures:					
Facilities acquisition	-	-	5,286,771	20,635	5,307,406
Long-term debt:					
Principal	-	375,902	-	-	375,902
Interest and fiscal charges	-	378,665	32,339	-	411,004
AEA flowthrough	267,205	-	-	-	267,205
	267,205	754,567	5,319,110	20,635	6,361,517
Total expenditures	6,827,535	754,567	5,409,990	523,302	13,515,394
Excess (deficiency) of revenues over (under) expenditures	238,690	(396,116)	(5,013,697)	127,809	(5,043,314)
Other financing sources (uses):					
Revenue bonds issued	-	-	2,885,000	-	2,885,000
Operating transfers in	-	395,663	200	-	395,863
Operating transfers out	(200)	-	(366,845)	(28,818)	(395,863)
Sale of equipment	15,931	-	-	-	15,931
Total other financing sources (uses)	15,731	395,663	2,518,355	(28,818)	2,900,931
Net change in fund balances	254,421	(453)	(2,495,342)	98,991	(2,142,383)
Fund balances beginning of year	69,018	179	3,772,940	162,395	4,004,532
Fund balances end of year	\$ 323,439	(274)	1,277,598	261,386	1,862,149

See notes to financial statements.

**Mount Ayr Community School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds to the Statement of Activities
 Year ended June 30, 2010**

Net change in fund balances - total governmental funds (Exhibit E) \$ (2,142,383)

***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:

Capital outlays	\$ 4,730,945	
Depreciation expense	<u>(405,800)</u>	4,325,145

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. The gain on disposition of capital assets and the proceeds from disposition are as follows:

Gain on disposition of capital assets	13,229	
Proceeds from the disposition	<u>(15,931)</u>	(2,702)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Also, governmental funds report the effect of issuance costs and premiums, whereas these amounts are deferred in and amortized in the Statement of Activities. Current year items are as follows:

Proceeds from revenue bonds issued	(2,885,000)	
Discounts on revenue bonds issued	32,339	
Repayments of bond and note principal	375,902	
Amortization of premiums and bond issuance costs	<u>(4,129)</u>	(2,480,888)

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

1,733

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	(5,870)	
Compensated absences	(4,555)	
Other postemployment benefits payable	<u>20,482</u>	10,057

The change in net assets of the Internal Service Funds represent an undercharge to the governmental funds served and, therefore, increases expenses in the Statement of Activities.

1,359

Change in net assets of governmental activities (Exhibit B) \$ (287,679)

See notes to financial statements.

**Mount Ayr Community School District
Statement of Net Assets
Proprietary Funds
June 30, 2010**

	Business Type Activities	Governmental Activities
	Non-major Enterprise Fund	Internal Services Fund
Assets		
Current assets:		
Cash and investments	\$ 46,758	1,364
Inventories	22,404	-
Total current assets	<u>69,162</u>	<u>1,364</u>
Non-current assets:		
Other postemployment benefits	1,618	-
Property and equipment:		
Machinery and equipment	280,527	-
Accumulated depreciation	(238,973)	-
Total non-current assets	<u>43,172</u>	<u>-</u>
Total assets	<u><u>\$ 112,334</u></u>	<u><u>1,364</u></u>
Liabilities		
Current liabilities:		
Accounts payable	\$ 23,222	-
Salaries and benefits payable	4,452	-
Total current liabilities	<u>27,674</u>	<u>-</u>
Total liabilities	<u>27,674</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	41,554	-
Unrestricted	43,106	1,364
Total net assets	<u>84,660</u>	<u>1,364</u>
Total liabilities and net assets	<u><u>\$ 112,334</u></u>	<u><u>1,364</u></u>

See notes to financial statements.

Exhibit H

Mount Ayr Community School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2010

	Business Type Activities	Governmental Activities
	Non-major Enterprise Fund	Internal Services Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 158,598	1,359
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Depreciation	976	-
Other	368,585	-
	<u>369,561</u>	-
Other expenditures:		
Facilities acquisition:		
Other	820	-
Total operating expenses	<u>370,381</u>	-
Operating income (loss)	<u>(211,783)</u>	1,359
Non-operating revenues:		
State sources	3,782	-
Federal sources	214,635	-
Total non-operating revenues	<u>218,417</u>	-
Net income	6,634	1,359
Net assets beginning of year	<u>78,026</u>	5
Net assets end of year	<u>\$ 84,660</u>	<u>1,364</u>

See notes to financial statements.

Exhibit I

**Mount Ayr Community School District
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2010**

	Business Type Activities	Governmental Activities
	Non-major Enterprise Fund	Internal Services Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 150,447	-
Cash received from miscellaneous operating activities	8,751	1,359
Cash paid to employees for services	(200,340)	-
Cash paid to suppliers for goods or services	(127,012)	-
Net cash provided (used) by operating activities	<u>(168,154)</u>	<u>1,359</u>
Cash flows from non-capital financing activities:		
State grants received	3,782	-
Federal grants received	176,028	-
Net cash provided by non-capital financing activities	<u>179,810</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(13,639)	-
Net cash used by capital and related financing activities	<u>(13,639)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(1,983)	1,359
Cash and cash equivalents at beginning of year	<u>48,741</u>	<u>5</u>
Cash and cash equivalents at end of year	<u>\$ 46,758</u>	<u>1,364</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (211,783)	1,359
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	38,607	-
Depreciation	976	-
Decrease in accounts receivable	600	-
Decrease in inventories	5,906	-
Increase in accounts payable	21,967	-
(Decrease) in salaries and benefits payable	(22,809)	-
(Decrease) in postemployment benefits payable	(1,618)	-
Net cash provided (used) by operating activities	<u>\$ (168,154)</u>	<u>1,359</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:		
Current assets:		
Cash	\$ 46,758	1,364
Cash and cash equivalents at year end	<u>\$ 46,758</u>	<u>1,364</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received federal commodities valued at \$38,607.

See notes to financial statements.

Exhibit J

**Mount Ayr Community School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010**

	<u>Expendable Trust Funds</u>
	<u>Memorial Fund</u>
Assets	
Cash and investments	\$ 3,319
Total assets	<u>3,319</u>
Net assets	
Held in trust for special purposes	<u>\$ 3,319</u>

See notes to financial statements.

Exhibit K

Mount Ayr Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	<u>Expendable Trust</u> <u>Funds</u> <u>Memorial Fund</u>
Additions	\$ -
Deductions	-
Change in net assets	-
Net assets beginning of year	<u>3,319</u>
Net assets end of year	<u>\$ 3,319</u>

See notes to financial statements.

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Mount Ayr 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. Mount Ayr 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 Ringgold 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 non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 non-major governmental funds.

Fund accounting - The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance/net assets, revenues and expenditures or expenses, as appropriate. The District has the following funds:

Governmental Fund Types: Governmental fund types are those funds through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund: 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.

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

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

The other governmental funds of the District are considered non-major and are as follows:

Special Revenue Funds: The Special Revenue Funds account for the revenue sources that are legally restricted to expenditures for specific purposes. These funds consist of the following:

Student Activity Funds: This fund accounts for transactions that occur due to student-related activities from groups and organizations such as athletic and activity events, fundraising and other extra-curricular or co-curricular activities.

Management Fund: This fund is authorized by Iowa Code Section 298.4 and accounts for transactions related to unemployment, early retirement, judgments and settlements and the cost of liability insurance as it relates to property and casualty.

Physical Plant and Equipment Levy (PPEL) Fund: This fund is authorized by Iowa Code 298.2 and accounts for transactions related to the improvement of facilities and grounds, construction of school houses, certain equipment expenditures and other expenditures authorized in Iowa Code 298.3.

Proprietary Fund Types: Proprietary fund types are used to account for the District's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon income determination, financial position and cash flows. The following are the District's proprietary funds:

Enterprise Funds: Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the District has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the District has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements, issued on or before November 30, 1989, except for those pronouncements which conflict with or contradict GASB pronouncements.

The following enterprise funds of the District are considered non-major:

School Nutrition Fund: This fund accounts for transactions related to the school lunch, breakfast and summer food programs authorized by Iowa Code 283A.

Student Construction Fund: This fund accounts for transactions related to construction projects performed by students for educational purposes.

Internal Service Funds: The internal service funds are used to account for goods or services provided by one department to other departments of the District on a cost reimbursement basis. The District has the following internal service fund:

Flexible Benefits: This fund accounts for transactions for certain benefits available to District employees in which the District is responsible for paying all premiums or costs specified by the employee.

Fiduciary Fund Types: Fiduciary funds account for assets held by the District in a trustee or agency capacity for the benefit of others and cannot be used to support District activities. The District has the following fiduciary fund type:

Expendable Trust Fund: These funds account for assets held by the District for special projects of the District with funds given by individuals, private organizations and other governments.

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

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 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, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair 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.

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2010

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

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

Deferred and Unearned 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 the succeeding year's property tax receivable not collected within sixty days after year end.

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

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures exceeded the amounts budgeted in the non-instructional and other expenditure functional areas and the District exceeded its General Fund unspent authorized budget.

(2) Cash and Pooled Investments

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

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2010

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.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects Fund	General Fund	\$ 200
Debt Service	Capital Projects Fund	366,845
Debt Service	Special Revenue:	
	Physical Plant and Equipment Levy	28,818
Total		<u>\$ 395,863</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year	Interest Payable
2009-10A	6/25/2009	6/23/2010	\$ -	500,000	500,000	-	-

During the year ended June 30, 2010, the District paid \$83,075 of interest on the ISCAP warrants.

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2010

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 145,185	-	-	145,185
Construction in progress	4,054,222	-	4,054,222	-
Total capital assets not being depreciated	4,199,407	-	4,054,222	145,185
Capital assets being depreciated:				
Buildings	9,911,547	8,559,486	-	18,471,033
Improvements other than buildings	437,424	-	-	437,424
Furniture and equipment	3,214,951	225,681	21,821	3,418,811
Total capital assets being depreciated	13,563,922	8,785,167	21,821	22,327,268
Less accumulated depreciation for:				
Buildings	5,079,526	202,128	-	5,281,654
Improvements other than buildings	305,250	7,046	-	312,296
Furniture and equipment	2,253,429	196,626	19,119	2,430,936
Total accumulated depreciation	7,638,205	405,800	19,119	8,024,886
Total capital assets being depreciated, net	5,925,717	8,379,367	2,702	14,302,382
Governmental activities capital assets, net	\$ 10,125,124	8,379,367	4,056,924	14,447,567
Business type activities:				
Furniture and equipment	\$ 266,887	13,640	-	280,527
Less accumulated depreciation	237,997	976	-	238,973
Business type activities capital assets, net	\$ 28,890	12,664	-	41,554

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 209,480
Special	12,019
Other	23,954

Support services:

Student	5,988
Instructional staff	6,453
Administration	6,117
Operation and maintenance of plant	19,014
Transportation	79,331
Non-instructional programs	25,479

387,835

Unallocated 17,965

Total depreciation expense - governmental activities \$ 405,800

Business type activities:

Food services	\$ 976
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Mount Ayr Community School District
Notes to Financial Statements
June 30, 2010

(6) Long-term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 6,480,000	-	230,000	6,250,000	240,000
Revenue bonds	-	2,885,000	120,000	2,765,000	145,000
Capital loan notes	67,134	-	25,902	41,232	27,161
Early retirement	190,293	52,600	38,530	204,363	46,730
Compensated absences	-	4,555	-	4,555	4,555
Total	\$ 6,737,427	2,942,155	414,432	9,265,150	463,446

General Obligation Bonds

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

Bond Issue of May 1, 2008				
Year ended June 30,	Rates	Principal	Interest	Total
2011	4.250%	\$ 240,000	269,065	509,065
2012	4.250%	250,000	258,865	508,865
2013	4.250%	260,000	248,240	508,240
2014	4.250%	270,000	237,190	507,190
2015	4.250%	280,000	225,715	505,715
2016	4.250%	295,000	213,815	508,815
2017	4.250%	305,000	201,278	506,278
2018	4.250%	320,000	188,315	508,315
2019	4.250%	330,000	174,715	504,715
2020	4.250%	345,000	160,690	505,690
2021	4.250%	360,000	146,027	506,027
2022	4.250%	375,000	130,728	505,728
2023	4.250%	390,000	114,790	504,790
2024	4.300%	410,000	98,215	508,215
2025	4.350%	425,000	80,585	505,585
2026	4.400%	445,000	62,097	507,097
2027	4.450%	465,000	42,518	507,518
2028	4.500%	485,000	21,825	506,825
Total		\$ 6,250,000	2,874,673	9,124,673

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2010

Revenue Bonds

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

Bond Issue of September 1, 2009					
Year ended	Rates	Principal	Interest		
June 30,				Total	
2011	3.000%	\$ 145,000	112,692	257,692	
2012	3.000%	145,000	108,342	253,342	
2013	3.000%	165,000	103,992	268,992	
2014	3.000%	165,000	99,042	264,042	
2015	3.250%	160,000	94,092	254,092	
2016	3.500%	160,000	88,892	248,892	
2017	3.750%	155,000	83,292	238,292	
2018	4.000%	150,000	77,480	227,480	
2019	4.125%	150,000	71,480	221,480	
2020	4.250%	145,000	65,292	210,292	
2021	4.400%	145,000	59,130	204,130	
2022	4.500%	140,000	52,750	192,750	
2023	4.625%	140,000	46,450	186,450	
2024	4.750%	140,000	39,975	179,975	
2025	5.000%	135,000	33,325	168,325	
2026	5.000%	135,000	26,575	161,575	
2027	5.000%	130,000	19,825	149,825	
2028	5.125%	130,000	13,325	143,325	
2029	5.125%	130,000	6,662	136,662	
Total		\$ 2,765,000	1,202,613	3,967,613	

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,885,000 of bonds issued in September, 2009. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$3,967,613. For the current year, \$12,000 of principal and \$96,910 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$368,364.

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

- a) \$263,731 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all of the revenue bond provisions during the year ended June 30, 2010.

Capital Loan Notes

Details of the District's June 30, 2010 capital loan note indebtedness are as follows:

Period Ending June 30,	2001 Capital Loan Note			
	Interest Rate	Principal	Interest	Total
2011	4.80%	\$ 27,161	1,657	28,818
2012	4.80%	14,071	338	14,409
Total		\$ 41,232	1,995	43,227

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$304,192, \$299,444, and \$268,384, respectively, equal to the required contributions for each year.

(8) Other Post-Employment Benefits (OPEB)

Plan Description - The District operates a retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 111 active and 17 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is purchased through an outside provider. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 28,500
Contributions made	(50,600)
Increase in net OPEB obligation	(22,100)
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$ (22,100)</u>

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

Mount Ayr Community School District
Notes to Financial Statements
June 30, 2010

For the year ended June 30, 2010, the District contributed \$327,894 to the medical plan. Plan members eligible for benefits contributed \$118,202, or 36% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$28,500	177.5%	\$(22,100)

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$310,185, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$310,185. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,697,800, and the ratio of the UAAL to covered payroll was 8.4%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information in the section following the Notes to Financial Statements, 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, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumption includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$289 per month for retirees less than age 65 and \$300 per month for retirees who have attained age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Termination Benefits

The District offers a voluntary early retirement plan to its full-time, certified employees. Eligible employees must be at least age fifty-four by September 1, but not more than sixty-two years of age by June 1 preceding the year of retirement and employees must have completed ten years of service to the District. Employees must complete an application and an attached letter of resignation which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is the difference between the salary schedule base and the employee's placement on the salary schedule using the salary schedule in effect for the last year of employment and subject to a maximum of \$19,475 to \$36,000 per individual depending upon the individual's level of education and service to the District.

Early retirement benefits are paid monthly and cease when the retiree reaches the age of 65.

At June 30, 2010, the District has obligations to 14 participants with a total liability of \$204,363. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$38,530.

(10) 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.

(11) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$267,205 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

Mount Ayr Community School District
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances
Budget and Actual - All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance- Positive (Negative)
Revenues:					
Local sources	\$ 4,719,205	158,598	4,877,803	4,851,324	26,479
Intermediate sources	30,171	-	30,171	10,000	20,171
State sources	2,876,171	3,782	2,879,953	3,574,360	(694,407)
Federal sources	846,533	214,635	1,061,168	568,000	493,168
Total revenues	8,472,080	377,015	8,849,095	9,003,684	(154,589)
Expenditures:					
Instruction	4,887,749	-	4,887,749	4,947,000	59,251
Support services	2,266,128	-	2,266,128	3,118,000	851,872
Non-instructional programs	-	369,561	369,561	352,200	(17,361)
Other expenditures	6,361,517	820	6,362,337	3,338,894	(3,023,443)
Total expenditures	13,515,394	370,381	13,885,775	11,756,094	(2,129,681)
Excess (deficiency) of revenues over (under) expenditures	(5,043,314)	6,634	(5,036,680)	(2,752,410)	(2,284,270)
Other financing sources, net	2,900,931	-	2,900,931	6,000	2,894,931
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(2,142,383)	6,634	(2,135,749)	(2,746,410)	610,661
Balances beginning of year	4,004,532	78,026	4,082,558	3,222,389	860,169
Balances end of year	\$ 1,862,149	84,660	1,946,809	475,979	1,470,830

See accompanying independent auditor's report.

Mount Ayr Community School District
Notes to Required Supplementary Information - Budgetary Reporting
Year Ended June 30, 2010

(1) Basis of Presentation

The District operates within the budget requirements for school districts as specified by state law and as prescribed by the Iowa Department of Management. Budgets are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

For the fiscal year beginning July 1, a proposed budget is adopted by the Board and filed with the County Auditor no later than April 15. The budget is certified by the County Auditor to the Department of Management.

Once adopted, the budget can be amended by the Board. The amendment must be published and a public hearing conducted prior to the amendment. Any amendments must be certified to the County Auditor no later than May 31. The proposed expenditure budget is advertised in the local newspaper, together with a notice of public hearing.

The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is the functional area for a budgeted governmental, enterprise and private purpose trust funds in total, rather than by individual fund type. Formal and legal budgetary control is based on four major classes of expenditures known as functional areas. These four functional areas are instruction, support services, non-instructional programs and other expenditures. During the year ended June 30, 2010, the District over-expended the non-instructional functional area by \$17,361 and the other expenditures functional area by \$3,023,443. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. Authorized expenditures cannot exceed the lesser of the certified budget plus any allowable amendments, or the authorized budget, which is the sum of the District's cost for that year plus the actual miscellaneous income received for that year plus the actual unspent balance from the preceding year. Appropriations, as adopted and amended, lapse at the end of the fiscal year. The District exceeded its General Fund unspent authorized budget.

The District is required by the Code of Iowa to budget for its share of media, education services and special education support provided through the local area education agency. The District's actual amount for this purpose totaled \$267,205 for the year ended June 30, 2010.

**Mount Ayr Community School District
Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 310,185	\$ 310,185	0.0%	\$ 3,697,800	8.4%

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

Other Supplementary Information

Schedule 1

**Mount Ayr Community School District
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2010**

	Special Revenue			
	Management	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$ 165,607	110,135	28,829	304,571
Receivables:				
Property tax:				
Delinquent	4,382	-	1,132	5,514
Succeeding year	149,999	-	68,368	218,367
Total assets	\$ 319,988	110,135	98,329	528,452
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	-	1,969	1,969
Deferred revenue:				
Succeeding year property tax	149,999	-	68,368	218,367
Early retirement payable	46,730	-	-	46,730
Total liabilities	196,729	-	70,337	267,066
Unreserved fund balances	123,259	110,135	27,992	261,386
Total liabilities and fund balances	\$ 319,988	110,135	98,329	528,452

See accompanying independent auditor's report.

Schedule 2

Mount Ayr Community School District
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2010

	Special Revenue			Total
	Management	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Local sources:				
Local tax	\$ 249,541	-	64,914	314,455
Other	1,071	335,410	-	336,481
State sources	139	-	36	175
Total revenues	<u>250,751</u>	<u>335,410</u>	<u>64,950</u>	<u>651,111</u>
Expenditures:				
Current:				
Instruction:				
Regular	45,103	-	-	45,103
Other	-	359,009	1,326	360,335
Support Services:				
Administration	48,276	-	1,740	50,016
Operation and maintenance of plant	39,341	-	-	39,341
Student transportation	7,272	-	600	7,872
Other expenditures:				
Facilities acquisition	-	-	20,635	20,635
Total expenditures	<u>139,992</u>	<u>359,009</u>	<u>24,301</u>	<u>523,302</u>
Excess (deficiency) of revenues over (under) expenditures	<u>110,759</u>	<u>(23,599)</u>	<u>40,649</u>	<u>127,809</u>
Other financing uses:				
Operating transfers out	-	-	(28,818)	(28,818)
Excess (deficiency) of revenues over (under) expenditures other financing uses	<u>110,759</u>	<u>(23,599)</u>	<u>11,831</u>	<u>98,991</u>
Fund balances beginning of year	<u>12,500</u>	<u>133,734</u>	<u>16,161</u>	<u>162,395</u>
Fund balances end of year	<u>\$ 123,259</u>	<u>110,135</u>	<u>27,992</u>	<u>261,386</u>

See accompanying independent auditor's report.

Mount Ayr Community School District
Combining Statement of Net Assets
Proprietary Funds
June 30, 2010

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Assets				
Current assets:				
Cash and investments	\$ 43,305	3,453	46,758	1,364
Inventories	22,404	-	22,404	-
Total current assets	65,709	3,453	69,162	1,364
Non-current assets:				
Other postemployment benefits	1,618	-	1,618	-
Property and equipment:				
Machinery and equipment	280,527	-	280,527	-
Accumulated depreciation	(238,973)	-	(238,973)	-
Total non-current assets	43,172	-	43,172	-
Total assets	\$ 108,881	3,453	112,334	1,364
Liabilities				
Current liabilities:				
Accounts payable	\$ 23,222	-	23,222	-
Salaries and benefits payable	4,452	-	4,452	-
Total current liabilities	27,674	-	27,674	-
Total liabilities	27,674	-	27,674	-
Net Assets				
Invested in capital assets, net of related debt	41,554	-	41,554	-
Unrestricted	39,653	3,453	43,106	1,364
Total net assets	81,207	3,453	84,660	1,364
Total liabilities and net assets	\$ 108,881	3,453	112,334	1,364

See accompanying independent auditor's report.

Schedule 4

Mount Ayr Community School District
Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
June 30, 2010

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Operating revenues:				
Local sources:				
Other local sources:				
Food service sales	\$ 150,447	-	150,447	-
Other operating revenues	7,858	293	8,151	1,359
Total operating revenues	158,305	293	158,598	1,359
Operating expenses:				
Non-instructional programs:				
Food services operations:				
Salaries	149,989	-	149,989	-
Benefits	25,924	-	25,924	-
Services	3,310	-	3,310	-
Supplies	189,362	-	189,362	-
Depreciation	976	-	976	-
	369,561	-	369,561	-
Other expenditures:				
Facilities acquisition:				
Supplies	-	820	820	-
Total operating expenses	369,561	820	370,381	-
Operating income (loss)	(211,256)	(527)	(211,783)	1,359
Non-operating revenues:				
State lunch and breakfast program claims	3,782	-	3,782	-
National School Lunch Program	127,438	-	127,438	-
School Breakfast Program	48,590	-	48,590	-
Food distribution	38,607	-	38,607	-
Total non-operating revenues	218,417	-	218,417	-
Net income (loss)	7,161	(527)	6,634	1,359
Net assets beginning of year	74,046	3,980	78,026	5
Net assets end of year	\$ 81,207	3,453	84,660	1,364

See accompanying independent auditor's report.

Mount Ayr Community School District
Combining Statement of Cash Flows
Proprietary Funds
June 30, 2010

	Business Type Activities			Governmental Activities
	Non-major Enterprise Funds			Internal Service Funds
	School Nutrition	Student Construction	Total	Flexible Benefits
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 150,447	-	150,447	-
Cash received from other operating activities	7,858	893	8,751	1,359
Cash payments to employees for services	(200,340)	-	(200,340)	-
Cash payments to suppliers for goods or services	(126,061)	(951)	(127,012)	-
Net cash provided (used) by operating activities	(168,096)	(58)	(168,154)	1,359
Cash flows from non-capital financing activities:				
State grants received	3,782	-	3,782	-
Federal grants received	176,028	-	176,028	-
Net cash provided by non-capital financing activities	179,810	-	179,810	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(13,639)	-	(13,639)	-
Net cash used by capital and related financing activities	(13,639)	-	(13,639)	-
Net increase (decrease) in cash and cash equivalents	(1,925)	(58)	(1,983)	1,359
Cash and cash equivalents at beginning of year	45,230	3,511	48,741	5
Cash and cash equivalents at end of year	\$ 43,305	3,453	46,758	1,364
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (211,256)	(527)	(211,783)	1,359
Adjustments to reconcile operating loss to net cash used by operating activities:				
Commodities used	38,607	-	38,607	-
Depreciation	976	-	976	-
Decrease in accounts receivable	-	600	600	-
Decrease in inventories	5,538	368	5,906	-
Increase (decrease) in accounts payable	22,466	(499)	21,967	-
(Decrease) in salaries and benefits payable	(22,809)	-	(22,809)	-
(Decrease) in postemployment benefits	(1,618)	-	(1,618)	-
Net cash provided (used) by operating activities	\$ (168,096)	(58)	(168,154)	1,359
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:				
Current assets:				
Cash	\$ 43,305	3,453	46,758	1,364
Cash and cash equivalents at year end	\$ 43,305	3,453	46,758	1,364

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received federal commodities valued at \$38,607.

See accompanying independent auditor's report.

Schedule 6

Mount Ayr Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2010

Account	Balance Beginning of Year	Transfers	Revenues	Expenditures	Balance End of Year
Adult Education	\$ 2,522	-	1,281	1,110	2,693
Alternative School	142	-	-	1	141
Art Club	878	-	118	661	335
Athletics:					
Football	12,314	-	15,314	22,028	5,600
Volleyball	(5)	-	3,374	3,465	(96)
Wrestling	1,128	-	11,309	7,482	4,955
Boys' basketball	35	-	2,954	2,868	121
Girls' basketball	2,963	-	12,163	9,891	5,235
Boys' track	102	-	895	868	129
Girls' track	801	-	6,199	5,630	1,370
Cross Country resale	497	-	1,813	2,100	210
Golf	194	-	2,555	2,161	588
Baseball	1,204	-	2,726	2,920	1,010
Softball	946	-	3,565	4,624	(113)
Bowling	146	-	960	1,017	89
General Athletics	7,510	-	92,553	96,957	3,106
Ayrian	7,147	-	7,860	7,017	7,990
Band	1,071	-	6,235	3,681	3,625
Character Counts	209	-	136	308	37
Cheerleaders	(1,256)	-	14,046	10,960	1,830
Class:					
Senior	(4,885)	5,665	5,081	4,086	1,775
Junior	6,633	(1,697)	10,018	9,808	5,146
Sophomore	2,960	782	4,077	3,818	4,001
Freshman	3,313	764	2,518	4,077	2,518
Concessions	3,581	-	38,960	39,638	2,903
Drama Club	331	-	4,687	5,735	(717)
Drill Team	3,758	-	10,103	11,308	2,553
Elementary Activities	6,849	-	4,620	2,983	8,486
Elementary Library	2,584	-	558	404	2,738
Elementary Student Council	3,331	-	7,483	8,159	2,655
Elementary Yearbook	444	-	-	1	443
Future Consumer Comm Leadersip Assoc	263	-	2,965	2,004	1,224
Future Farmers of America	23,393	-	36,460	47,141	12,712
Future Teachers Association	2,553	-	-	154	2,399
Gifts/Memorials	4,124	130	2,905	3,650	3,509
Industrial Arts	(226)	-	1,995	1,618	151
Middle School	10,679	(5,644)	3,066	3,300	4,801
Library Club	312	-	65	22	355
Pep Club	1,242	-	-	77	1,165
Resale	1,758	-	6,713	6,146	2,325
S.A.D.D.	522	-	343	128	737
Science Club	601	-	-	342	259
Talented and Gifted Club	2,190	-	145	453	1,882

Schedule 6

Mount Ayr Community School District
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2010

Account	Balance				Balance End of Year
	Beginning of Year	Transfers	Revenues	Expenditures	
Spanish Club	1,702	-	-	-	1,702
Special Olympics	470	-	86	300	256
Speech	128	-	612	885	(145)
Student Council	566	-	1,406	1,265	707
Student Activity/vending	3,418	-	564	2,442	1,540
Vocal music	2,184	-	1,074	1,176	2,082
Weightlifting	10,408	-	2,850	12,140	1,118
Total	\$ 133,734	-	335,410	359,009	110,135

See accompanying independent auditor's report.

Mount Ayr Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Nine Years

	Modified Accrual Basis								
	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:									
Local sources:									
Local tax	\$ 3,696,028	3,753,308	3,250,186	2,767,016	2,572,488	2,451,825	2,376,629	2,377,295	2,024,160
Tuition	383,168	406,661	556,040	608,610	529,221	423,715	468,609	545,882	546,584
Other	640,009	1,222,713	600,441	539,291	452,485	456,198	367,281	450,124	417,165
Intermediate sources	30,171	28,627	33,771	16,026	9,184	11,461	19,491	23,885	45,615
State sources	2,876,171	3,401,412	3,328,660	3,115,847	3,178,765	3,108,574	3,374,553	3,335,123	3,411,878
Federal sources	846,533	438,928	374,159	345,295	357,147	283,269	271,334	260,386	289,085
Total	\$ 8,472,080	9,251,649	8,143,257	7,392,085	7,099,290	6,735,042	6,877,897	6,992,695	6,734,487
Expenditures:									
Instruction:									
Regular	\$ 2,298,973	2,705,269	2,561,874	2,441,247	2,252,637	2,263,656	2,383,276	2,195,590	2,318,024
Special	1,282,803	1,316,604	1,101,386	1,229,717	1,359,199	1,317,696	1,271,789	1,330,654	1,301,817
Other	1,305,973	1,182,923	991,338	931,330	973,588	779,600	758,563	717,350	751,655
Support services:									
Student	214,196	208,071	179,619	185,798	206,175	174,313	148,048	142,481	187,156
Instructional staff	269,110	349,186	289,891	289,064	304,577	320,562	203,150	256,930	208,759
Administration	780,963	815,824	835,415	866,402	825,682	760,148	631,628	610,999	599,970
Operation and maintenance of plant	631,017	630,818	651,021	556,011	573,287	580,080	451,782	490,606	432,079
Transportation	370,842	481,274	445,958	503,431	425,201	318,102	288,136	268,432	311,839
Central support	-	-	-	-	-	65,926	54,662	95,673	156,355
Other support	-	-	-	-	-	-	8,845	-	-
Other expenditures:									
Facilities acquisition	5,307,406	3,826,197	504,012	101,995	223,998	367,132	145,579	5,158	607,785
Long-term debt:									
Principal	375,902	244,702	23,558	22,467	46,419	43,833	41,363	204,463	188,912
Interest and other charges	411,004	292,306	48,860	6,351	7,392	9,978	12,448	18,409	24,708
AEA flowthrough	267,205	248,593	236,762	228,129	222,117	218,935	228,706	246,674	249,067
Total	\$ 13,515,394	12,301,767	7,869,694	7,361,942	7,420,272	7,219,961	6,627,975	6,583,419	7,338,126

See accompanying independent auditor's report.

Mount Ayr Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 10	\$ 48,590
National School Lunch Program	10.555	FY 10	166,045 *
			214,635
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY 10	165,456
ARRA - Title I Grants to Local Education Agencies, Recovery Act	84.389	FY 10	50,356
			215,812
Vocational Education - Basic Grants to States	84.048	FY 10	11,885
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 10	43,035
Special Education - State Program Improvement Grants for Children with Disabilities	84.323	FY 10	27
Rural Education Achievement Program	84.358	FY 10	12,424
Title IIA - Federal Teacher Quality Program	84.367	FY 10	45,893
Grants for State Assessments	84.369	FY 10	4,050
ARRA - State Fiscal Stabilization Fund(SFSF) - Education State Grants, Recovery Act	84.394	FY 10	294,499
Heartland Area Education Agency			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY 10	33,955
ARRA - Special Education - Grants to States, Recovery Act	84.391	FY 10	92,846
			126,801
 Total			\$ 969,061

* Includes \$38,607 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Mount Ayr 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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CERTIFIED PUBLIC ACCOUNTANTS

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 Mount Ayr Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Mount Ayr Community School District, Mount Ayr, 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, and have issued our report thereon dated November 30, 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 Mount Ayr Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mount Ayr Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control over financial reporting 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 deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Ayr 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 Scheduling of Findings and Questioned Costs.

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

Mount Ayr 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 Mount Ayr County 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 Mount Ayr Community School District and other parties to whom Mount Ayr 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 Mount Ayr 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.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 30, 2010



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Van Maanen, Sietstra & Meyer, PC

CERTIFIED PUBLIC ACCOUNTANTS

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 Mount Ayr Community School District:

Compliance

We have audited the compliance of Mount Ayr 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. Mount Ayr 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 Mount Ayr Community School District's management. Our responsibility is to express an opinion on Mount Ayr 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 Mount Ayr 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 Mount Ayr Community School District's compliance with those requirements.

In our opinion, Mount Ayr 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 Mount Ayr 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 Mount Ayr 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 Mount Ayr Community School District's internal control over compliance.

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

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

Mount Ayr 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 expressed our conclusions on the District's responses, we did not audit Mount Ayr 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 Mount Ayr Community School District and other parties to whom Mount Ayr 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.

Van Maanen, Sietstra & Meyer, PC

Van Maanen, Sietstra & Meyer, PC
Certified Public Accountants

November 30, 2010

**Mount Ayr Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A 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 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
 - Clustered programs:
 - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 – ARRA – Title I Grants to Local Education Agencies, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Mount Ayr Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

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

CFDA Number 84.010: Title I Grants to Local Educational Agencies
CFDA Number 84.389: ARRA – Title I Grants to Local Education Agencies, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
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 internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, expenditures are recorded and checks are prepared by the same person.

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

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

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010, exceeded the certified budget amounts in the non-instructional and other expenditures functional areas.

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

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

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

**Mount Ayr Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

- 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 were noted between the District and District officials or employees.
- 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 ensure that coverage is adequate for current operations.
- IV-F-10 Board Minutes - No transactions were noted requiring Board approval which had not been approved by the Board.
- IV-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 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 Sale of Property - During the year ended June 30, 2010, the District made sales of property in accordance with Chapter 297.22 of the Code of Iowa.
- IV-L-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-M-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance	\$	2,018
Statewide sales, services and use tax revenue		368,634
Expenditures/transfers out		
School infrastructure:		
Buildings	\$	3,807
Debt service for school infrastructure:		
General obligation debt	149,935	
Revenue bond debt	216,910	370,652
		370,652
Ending balance	\$	-

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

	Per \$1000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.90042	\$ 368,364