

MONTEZUMA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Montezuma Community School District

Officials

Board of Education

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

School Officials

Dave VerSteeg	Superintendent	2011
Anita Sietstra	Board Secretary/ Treasurer	2011
Don Longhurst	Board Secretary Pro-Tem	2011
Ahlers & Cooney	District Attorney	2011

MONTEZUMA COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District, Montezuma, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 27, 2012 on our consideration of Montezuma Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Montezuma Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 9, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Montezuma Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,806,404 in fiscal year 2010 to \$5,458,152 in fiscal year 2011, while General Fund expenditures also increased from \$4,900,693 in fiscal 2010 to \$4,997,755 in fiscal 2011. The District's General Fund balance increased from \$619,632 in fiscal 2010 to \$1,080,029 in fiscal 2011.
- The increase in General Fund revenues was attributable primarily to an increase in charges for services in fiscal 2010. The increase in expenditures was due primarily to an increase in instructional and service functional areas affected by increase in contracts and supplies.
- Overall, the District increased net assets in the governmental activities by \$636,477, and decreased in the business type activities by \$9,247, respectively.
- As of June 30, 2011, the District's solvency ratio was 17.6% as compared to 11.0% for June 30, 2010. However, since fiscal year 2005, the District's solvency ratio has risen from 4.6% to 17.6%.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

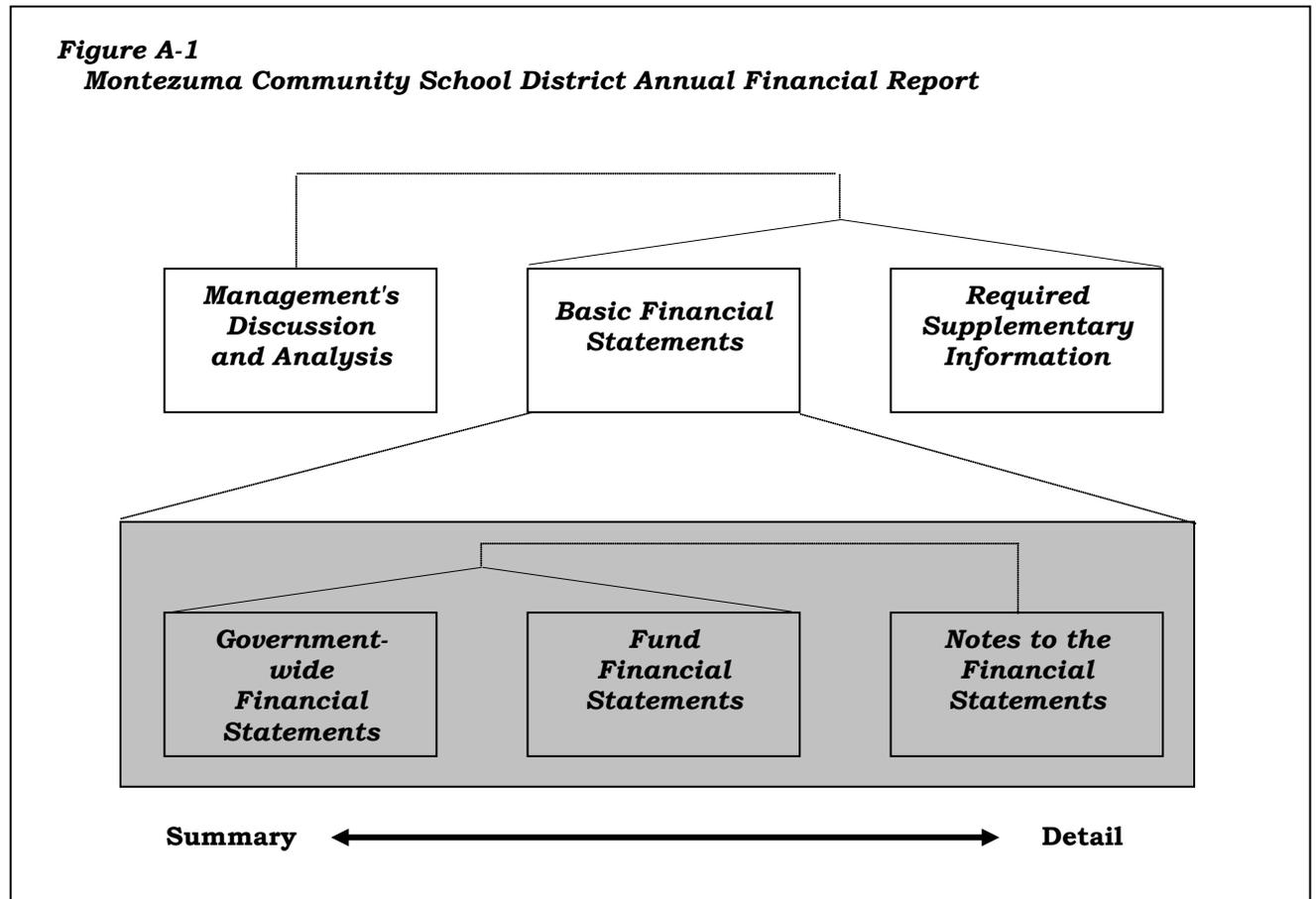


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s total net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 5,663,215	5,105,423	64,786	58,584	5,728,001	5,164,007	10.92%
Capital assets	1,692,912	1,465,161	68,698	78,111	1,761,610	1,543,272	14.15%
Total assets	7,356,127	6,570,584	133,484	136,695	7,489,611	6,707,279	11.66%
Long-term obligations	430,853	343,275	6,311	0	437,164	343,275	27.35%
Other liabilities	3,125,792	3,064,304	11,142	11,417	3,136,934	3,075,721	1.99%
Total liabilities	3,556,645	3,407,579	17,453	11,417	3,574,098	3,418,996	4.54%
Net assets:							
Invested in capital assets, net of related debt	1,692,912	1,465,161	68,698	78,111	1,761,610	1,543,272	14.15%
Restricted	986,720	999,827	0	0	986,720	999,827	-1.31%
Unrestricted	1,119,850	698,017	47,333	47,167	1,167,183	745,184	56.63%
Total net assets	\$ 3,799,482	3,163,005	116,031	125,278	3,915,513	3,288,283	19.07%

The District’s combined net assets increased by 19.07% over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased 1.31% compared to prior year. The decrease was primarily a result of the decrease in fund balance in the Special Revenue, Management Fund and the Capital Projects: Physical Plant and Equipment Levy Fund.

Unrestricted net assets are the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased by 56.63% from the prior year. The increase was primarily a result of the increase in the fund balance in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 as compared to the year ended 2010.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 481,547	368,342	153,046	148,604	634,593	516,946	22.76%
Operating grants and contributions and restricted interest	794,924	1,100,730	102,492	103,978	897,416	1,204,708	-25.51%
Capital grants and contributions and restricted interest	0	7,000	0	0	0	7,000	100.00%
General revenues:							
Local tax	2,771,109	2,575,745	0	0	2,771,109	2,575,745	7.58%
Statewide sales and service tax	369,216	352,729	0	0	369,216	352,729	4.67%
Unrestricted state grants	1,768,367	1,323,558	0	0	1,768,367	1,323,558	33.61%
Nonspecific program federal funding	169,131	0	0	0	169,131	0	100.00%
Other	73,323	72,431	62	60	73,385	72,491	1.23%
Transfers	0	(5,190)	0	5,190	0	0	0.00%
Total revenues and transfers	6,427,617	5,795,345	255,600	257,832	6,683,217	6,053,177	10.41%
Program expenses:							
Governmental activities:							
Instruction	4,063,220	4,036,957	0	0	4,063,220	4,036,957	0.65%
Support services	1,309,423	1,301,359	0	0	1,309,423	1,301,359	0.62%
Non-instructional programs	0	0	264,847	246,634	264,847	246,634	7.38%
Other expenses	418,497	328,716	0	0	418,497	328,716	27.31%
Total expenses	5,791,140	5,667,032	264,847	246,634	6,055,987	5,913,666	2.41%
Change in net assets	636,477	128,313	(9,247)	11,198	627,230	139,511	349.59%
Net assets beginning of year	3,163,005	3,034,692	125,278	114,080	3,288,283	3,148,772	4.43%
Net assets end of year	\$ 3,799,482	3,163,005	116,031	125,278	3,915,513	3,288,283	19.07%

In fiscal 2011, local tax, statewide sales and services tax, and unrestricted state grants account for 76.37% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.97% of the revenue from business type activities.

The District's total revenues were \$6,683,217 of which \$6,427,617 was for governmental activities and \$255,600 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10.41% increase in revenues and a 2.41% increase in expenses. The increase in expenses was related to increases in instruction and support services expenditures.

Governmental Activities

Revenues for governmental activities were \$6,427,617 and expenses were \$5,791,140.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 4,063,220	4,036,957	0.65%	3,017,928	2,791,378	8.12%
Support services	1,309,423	1,301,359	0.62%	1,306,182	1,301,359	0.37%
Other expenses	418,497	328,716	27.31%	190,559	98,223	94.01%
Totals	\$ 5,791,140	5,667,032	2.19%	4,514,669	4,190,960	7.72%

- The cost financed by users of the District's programs was \$481,547.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$794,924.
- The net cost of governmental activities was financed with \$2,771,109 in local tax, \$369,216 in statewide sales and services tax, \$1,768,367 in unrestricted state grants, \$169,131 in non-specific program federal funding, \$3,007 in interest income and \$70,316 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$255,600 and expenses were \$264,847. The District's business type activity is the School Nutrition. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,283,290, above last year's ending fund balances of \$1,816,404, an increase of 25.70% over the prior year.

Governmental Fund Highlights

- The District's General Fund financial position changed from \$619,632 in Fiscal 2010 to \$1,080,029 in fiscal 2011. This was due to the increase in revenues during the year.

- The District's Capital Projects Fund decreased from a restated beginning balance of \$643,327 in Fiscal 2011, to an ending fund balance of \$621,848. During the year ended June 30, 2011 Physical Plant and Equipment Levy Fund was reclassified as a Capital Projects Account due to GASB statement number 54. This was due to increased expenditures for construction of a new bus barn, ensuring the decrease in fund balance for the Capital Projects Fund.
- The District increased its tax levy in anticipation of a two year plan to offer early retirement incentives and lower salary costs in the General Fund (See Note 4). This levy increase allowed the Management Levy Fund to improve from \$419,725 to \$448,946. Although fund expenditures increased by \$65,301 as compared to fiscal 2010, the increase of \$112,837 in fund revenues resulted in an increase to the fund balance.

Proprietary Funds Highlights

The School Nutrition Fund net assets decreased from \$125,278 at June 30, 2010 to \$116,031 at June 30, 2011, representing a decrease of 7.38%.

CERTIFIED BUDGETARY HIGHLIGHTS

The District's revenues were \$48,321 more than budgeted revenues, a variance of 0.73%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$1,761,610, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$185,114.

The original cost of the District's capital assets was \$5,256,382. Governmental funds account for \$5,094,488 with the remainder of \$161,894 in the Proprietary, School Nutrition Fund.

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

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 169,873	169,873	0	0	169,873	169,873	0.00%
Construction in progress	0	249,084	0	0	0	249,084	-100.00%
Buildings	1,184,581	652,229	0	0	1,184,581	652,229	81.62%
Land improvements	63,187	69,828	0	0	63,187	69,828	-9.51%
Machinery and equipment	275,271	324,147	68,698	78,111	343,969	402,258	-14.49%
Total	\$ 1,692,912	1,465,161	68,698	78,111	1,761,610	1,543,272	14.15%

Long-Term Debt

At June 30, 2011, the District had \$437,164 in long-term debt outstanding. This represents an increase of 27.35% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total		Total
	School District		Change
	June 30,		June 30,
	2011	2010	2010-11
Early retirement	\$ 342,820	290,275	18.10%
Net OPEB liability	94,344	53,000	78.01%
Totals	\$ 437,164	343,275	27.35%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

MONTEZUMA COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,646,280	55,973	2,702,253
Receivables:			
Property tax:			
Delinquent	25,325	0	25,325
Succeeding year	2,607,933	0	2,607,933
Income surtax	254,133	0	254,133
Accounts	12,685	0	12,685
Due from other governments	116,859	0	116,859
Inventories	0	8,813	8,813
Capital assets, net of accumulated depreciation	1,692,912	68,698	1,761,610
Total Assets	7,356,127	133,484	7,489,611
Liabilities			
Accounts payable	134,953	0	134,953
Salaries and benefits payable	382,906	7,571	390,477
Deferred revenue			
Succeeding year property tax	2,607,933	0	2,607,933
Unearned revenue	0	3,571	3,571
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	53,985	4,550	58,535
Portion due after one year:			
Early retirement payable	284,285	0	284,285
Net OPEB liability	92,583	1,761	94,344
Total Liabilities	3,556,645	17,453	3,574,098
Net Assets			
Invested in capital assets, net of related debt	1,692,912	68,698	1,761,610
Restricted for:			
Categorical funding	121,729	0	121,729
Student activities	132,467	0	132,467
Management levy	110,676	0	110,676
School infrastructure	391,886	0	391,886
Physical plant and equipment	229,962	0	229,962
Unrestricted	1,119,850	47,333	1,167,183
Total Net Assets	\$ 3,799,482	116,031	3,915,513

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Expenses	Operating Grants, Contributions and Restricted Interest Services		Govern- mental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,572,629	207,668	323,077	(2,041,884)	0	(2,041,884)
Special instruction	537,712	23,090	55,645	(458,977)	0	(458,977)
Other instruction	952,879	250,789	185,023	(517,067)	0	(517,067)
	<u>4,063,220</u>	<u>481,547</u>	<u>563,745</u>	<u>(3,017,928)</u>	<u>0</u>	<u>(3,017,928)</u>
Support services:						
Student	29,747	0	0	(29,747)	0	(29,747)
Instructional staff	78,228	0	1,228	(77,000)	0	(77,000)
Administration	561,644	0	0	(561,644)	0	(561,644)
Operation and maintenance of plant	361,838	0	0	(361,838)	0	(361,838)
Transportation	277,966	0	2,013	(275,953)	0	(275,953)
	<u>1,309,423</u>	<u>0</u>	<u>3,241</u>	<u>(1,306,182)</u>	<u>0</u>	<u>(1,306,182)</u>
Other expenditures:						
Facilities acquisitions	(87,763)	0	0	87,763	0	87,763
Sale of Equipment	278,322	0	0	(278,322)	0	(278,322)
AEA flowthrough	227,938	0	227,938	0	0	0
	<u>418,497</u>	<u>0</u>	<u>227,938</u>	<u>(190,559)</u>	<u>0</u>	<u>(190,559)</u>
Total governmental activities	<u>5,791,140</u>	<u>481,547</u>	<u>794,924</u>	<u>(4,514,669)</u>	<u>0</u>	<u>(4,514,669)</u>
Business Type activities:						
Non-instructional programs:						
Nutrition services	264,847	153,046	102,492	0	(9,309)	(9,309)
Total business type activities	<u>264,847</u>	<u>153,046</u>	<u>102,492</u>	<u>0</u>	<u>(9,309)</u>	<u>(9,309)</u>
Total	<u>\$ 6,055,987</u>	<u>634,593</u>	<u>897,416</u>	<u>(4,514,669)</u>	<u>(9,309)</u>	<u>(4,523,978)</u>
General Revenues and Transfers:						
General Revenues:						
Local tax for:						
General purposes				\$ 2,413,730	0	2,413,730
Capital outlay				73,828	0	73,828
Income surtax				283,551	0	283,551
Statewide sales, services and use tax				369,216	0	369,216
Unrestricted state grants				1,768,367	0	1,768,367
Nonspecific program federal funding				169,131	0	169,131
Unrestricted investment earnings				3,007	62	3,069
Other				70,316	0	70,316
Total general revenues and transfers				<u>5,151,146</u>	<u>62</u>	<u>5,151,208</u>
Change in net assets				636,477	(9,247)	627,230
Net assets beginning of year				<u>3,163,005</u>	<u>125,278</u>	<u>3,288,283</u>
Net assets end of year				<u>\$ 3,799,482</u>	<u>116,031</u>	<u>3,915,513</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,501,327	561,330	583,623	2,646,280
Receivables:				
Property tax:				
Delinquent	22,546	749	2,030	25,325
Succeeding year	2,430,756	77,177	100,000	2,607,933
Income surtax	254,133	0	0	254,133
Accounts	12,685	0	0	12,685
Due from other governments	49,035	67,824	0	116,859
Total Assets	\$ 4,270,482	707,080	685,653	5,663,215
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 122,658	8,055	4,240	134,953
Salaries and benefits payable	382,906	0	0	382,906
Deferred revenue:				
Succeeding year property tax	2,430,756	77,177	100,000	2,607,933
Income surtax	254,133	0	0	254,133
Total liabilities	3,190,453	85,232	104,240	3,379,925
Fund balances:				
Restricted for:				
Categorical funding	121,729	0	0	121,729
Management levy purposes	0	0	448,946	448,946
Student activities	0	0	132,467	132,467
School infrastructure	0	391,886	0	391,886
Physical plant and equipment	0	229,962	0	229,962
Unassigned	958,300	0	0	958,300
Total fund balances	1,080,029	621,848	581,413	2,283,290
Total Liabilities and Fund Balances	\$ 4,270,482	707,080	685,653	5,663,215

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011

Total fund balances of governmental funds(page 20) \$ 2,283,290

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 in the governmental funds. 1,692,912

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 254,133

Long-term liabilities, including early retirement and other postemployment benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (430,853)

Net assets of governmental activities(page 18) \$ 3,799,482

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,467,838	443,044	200,025	3,110,907
Tuition	205,759	0	0	205,759
Other	47,577	11,744	295,261	354,582
State sources	2,398,951	41	110	2,399,102
Federal sources	327,849	0	0	327,849
Total revenues	<u>5,447,974</u>	<u>454,829</u>	<u>495,396</u>	<u>6,398,199</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,306,402	0	140,605	2,447,007
Special	553,318	0	0	553,318
Other	684,076	0	287,901	971,977
	<u>3,543,796</u>	<u>0</u>	<u>428,506</u>	<u>3,972,302</u>
Support services:				
Student	29,747	0	0	29,747
Instructional staff	97,998	0	0	97,998
Administration	578,135	470	715	579,320
Operation and maintenance of plant	316,266	14,732	32,511	363,509
Transportation	203,875	0	5,696	209,571
	<u>1,226,021</u>	<u>15,202</u>	<u>38,922</u>	<u>1,280,145</u>
Other expenditures:				
Facilities acquisitions	0	461,106	0	461,106
AEA flowthrough	227,938	0	0	227,938
	<u>227,938</u>	<u>461,106</u>	<u>0</u>	<u>689,044</u>
Total expenditures	<u>4,997,755</u>	<u>476,308</u>	<u>467,428</u>	<u>5,941,491</u>
Excess(deficiency) of revenues over(under) expenditures	450,219	(21,479)	27,968	456,708
Other financing sources:				
Sale of equipment	10,178	0	0	10,178
Total other financing sources	<u>10,178</u>	<u>0</u>	<u>0</u>	<u>10,178</u>
Net change in fund balances	460,397	(21,479)	27,968	466,886
Fund balances beginning of year, as restated	619,632	643,327	553,445	1,816,404
Fund balances end of year	<u>\$ 1,080,029</u>	<u>621,848</u>	<u>581,413</u>	<u>2,283,290</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ 466,886

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

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

Depreciation expense	\$ (153,857)	
Capital outlay expenditures	<u>381,608</u>	227,751

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 29,418

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	\$ (47,995)	
Other Postemployment Benefits	<u>(39,583)</u>	<u>(87,578)</u>

Changes in net assets of governmental activities(page 19) \$ 636,477

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	<u>School Nutrition</u>
Assets	
Cash and pooled investments	\$ 55,973
Inventories	8,813
Capital assets, net of accumulated depreciation	<u>68,698</u>
Total Assets	<u>133,484</u>
Liabilities	
Salaries and benefits payable	7,571
Unearned revenues	3,571
Net OPEB liability	1,761
Early Retirement	<u>4,550</u>
Total Liabilities	<u>17,453</u>
Net Assets	
Invested in capital assets	68,698
Unrestricted	<u>47,333</u>
Total Net Asset	<u>\$ 116,031</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 150,981
Miscellaneous	2,065
TOTAL OPERATING REVENUES	153,046
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	82,876
Benefits	38,231
Services	1,400
Supplies	132,927
Depreciation	9,413
	264,847
TOTAL OPERATING EXPENSES	264,847
OPERATING LOSS	(111,801)
NON-OPERATING REVENUES:	
State sources	2,176
Federal sources	100,316
Interest income	62
TOTAL NON-OPERATING REVENUES	102,554
Changes in net assets	(9,247)
Net assets beginning of year	125,278
Net assets end of year	\$ 116,031

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2011

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 150,583
Cash received from miscellaneous operating activities	2,065
Cash payments to employees for services	(114,673)
Cash payments to suppliers for goods or services	<u>(118,532)</u>
Net cash used in operating activities	<u>(80,557)</u>
Cash flows from non-capital financing activities:	
State grants received	2,176
Federal grants received	<u>85,746</u>
Net cash provided by non-capital financing activities	<u>87,922</u>
Cash flows from investing activities:	
Interest on investments	<u>62</u>
Net increase in cash and cash equivalents	7,427
Cash and cash equivalents at beginning of year	<u>48,546</u>
Cash and cash equivalents at end of year	<u>\$ 55,973</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (111,801)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,570
Depreciation	9,413
Decrease in inventories	1,225
Increase in salaries and benefits payable	123
Decrease in unearned revenue	(398)
Increase in net opeb	1,761
Increase in early retirement payable	4,550
Net cash used in operating activities	<u>\$ (80,557)</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$14,570.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2011

	Private Purpose Trust	Agency
	Scholarship	
ASSETS		
Cash and pooled investments	\$ 54,440	1,498
LIABILITIES		
Accounts payable	3,981	0
Due to other groups	0	1,498
TOTAL LIABILITIES	3,981	1,498
NET ASSETS		
Reserved for scholarships	\$ 50,459	0

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Contributions	\$ 14,198
Total additions	<u>14,198</u>
Deductions:	
Non-instructional:	
Scholarships awarded	<u>29,514</u>
Change in net assets	(15,316)
Net assets beginning of year	<u>65,775</u>
Net assets end of year	<u>\$ 50,459</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these

pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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

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

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

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

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current

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

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

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

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable Classifications.

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2011 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase

agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$2,522,151 under the Investment Company Act of 1940.

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 169,873	0	0	169,873
Construction in progress	249,084	248,866	497,950	0
Total capital assets not being depreciated	<u>418,957</u>	<u>248,866</u>	<u>497,950</u>	<u>169,873</u>
Capital assets being depreciated:				
Buildings	3,248,936	633,369	37,802	3,844,503
Land improvements	147,615	0	0	147,615
Machinery and equipment	897,372	38,875	3,750	932,497
Total capital assets being depreciated	<u>4,293,923</u>	<u>672,244</u>	<u>41,552</u>	<u>4,924,615</u>
Less accumulated depreciation for:				
Buildings	2,596,707	82,809	19,594	2,659,922
Land improvements	77,787	6,641	0	84,428
Machinery and equipment	573,225	86,251	2,250	657,226
Total accumulated depreciation	<u>3,247,719</u>	<u>175,701</u>	<u>21,844</u>	<u>3,401,576</u>
Total capital assets being depreciated, net	<u>1,046,204</u>	<u>496,543</u>	<u>19,708</u>	<u>1,523,039</u>
Governmental activities capital assets, net	<u>\$ 1,465,161</u>	<u>745,409</u>	<u>517,658</u>	<u>1,692,912</u>
Business type activities:				
Machinery and equipment	\$ 161,894	0	0	161,894
Less accumulated depreciation	83,783	9,413	0	93,196
Business type activities capital assets, net	<u>\$ 78,111</u>	<u>(9,413)</u>	<u>0</u>	<u>68,698</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 2,577
Support services:	
Administration	5,242
Operation and maintenance of plant	15,412
Transportation	63,020
	<u>86,251</u>
Unallocated depreciation	<u>89,450</u>
Total governmental activities depreciation expense	<u>\$ 175,701</u>
Business type activities:	
Food services	<u>\$ 9,413</u>

(4) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Net OPEB Liability	\$ 53,000	39,583	0	92,583	0
Early retirement	290,275	153,078	105,083	338,270	53,985
Total	<u>\$ 343,275</u>	<u>192,661</u>	<u>105,083</u>	<u>430,853</u>	<u>53,985</u>
Business type activities:					
Net OPEB Liability	\$ 0	1,761	0	1,761	0
Early retirement	0	4,550	0	4,550	0
Total	<u>\$ 0</u>	<u>6,311</u>	<u>0</u>	<u>6,311</u>	<u>0</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed ten years of continuous service to the District. Employees must complete an application, which is subject to approval by the Board of Education. Early retirement benefits paid during the year ended June 30, 2011, totaled \$105,083. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(5) Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$205,505, \$199,462, and \$182,688 respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 67 active and 9 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 126,000
Interest on net OPEB obligation	2,385
Adjustment to annual required contribution	<u>(2,041)</u>
Annual OPEB cost	126,344
Contributions made	<u>(85,000)</u>
Increase in net OPEB obligation	41,344
Net OPEB obligation - beginning of year	<u>53,000</u>
Net OPEB obligation - end of year	<u>\$ 94,344</u>

For the calculation of the net OPEB obligation, the actuary has set the transition day as July, 1 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$85,000 to the plan. Plan members eligible for benefits contributed \$18,000 or 19.8% of premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$126,000	57.9%	\$53,000
2011	\$126,000	67.3%	\$94,344

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$831,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$831,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.611 million and the ratio of the UAAL to covered payroll was 31.8%. As of June 30, 2011 there were no trust fund assets.

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

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

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

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

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

(7) Risk Management

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$227,938 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Categorical Funding

The District's ending restricted fund balances for categorical funding at June 30, 2011 is comprised of the following programs:

Program	Amount
Talented and gifted	\$ 17,579
Statewide voluntary preschool	7,942
Salary improvement program	25,290
Professional development for model core curriculum	5,375
Professional development	28,699
Elementary activities	4,691
Dropout Prevention	18,710
At-Risk	13,443
Total	\$ 121,729

(10) Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of the fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010, as previously reported	\$ 451,296	192,031
Change in fund type classification per implementation of GASB Statement No. 54	192,031	(192,031)
Balances July 1, 2010, as restated	\$ 643,327	-

MONTEZUMA COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 3,671,248	153,108	3,824,356	3,840,271	3,840,271	(15,915)
State sources	2,399,102	2,176	2,401,278	2,583,064	2,583,064	(181,786)
Federal sources	327,849	100,316	428,165	182,143	182,143	246,022
Total revenues	<u>6,398,199</u>	<u>255,600</u>	<u>6,653,799</u>	<u>6,605,478</u>	<u>6,605,478</u>	<u>48,321</u>
Expenditures/expenses:						
Instruction	3,972,302	0	3,972,302	4,319,000	4,319,000	346,698
Support services	1,280,145	0	1,280,145	1,397,040	1,397,040	116,895
Non-instructional programs	0	264,847	264,847	300,000	300,000	35,153
Other expenditures	689,044	0	689,044	1,530,725	1,530,725	841,681
Total expenditures/expenses	<u>5,941,491</u>	<u>264,847</u>	<u>6,206,338</u>	<u>7,546,765</u>	<u>7,546,765</u>	<u>1,340,427</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	456,708	(9,247)	447,461	(941,287)	(941,287)	1,388,748
Other financing sources, net	<u>10,178</u>	<u>0</u>	<u>10,178</u>	<u>0</u>	<u>0</u>	<u>10,178</u>
Excess(Deficiency) of revenues and other financing sources(uses) over expenditures/expenses	466,886	(9,247)	457,639	(941,287)	(941,287)	1,398,926
Balance beginning of year	<u>1,816,404</u>	<u>125,278</u>	<u>1,941,682</u>	<u>497,014</u>	<u>497,014</u>	<u>1,444,668</u>
Balance end of year	<u>\$ 2,283,290</u>	<u>116,031</u>	<u>2,399,321</u>	<u>(444,273)</u>	<u>(444,273)</u>	<u>2,843,594</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

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

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

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			
2010	July 1, 2009	-	\$ 831	831	0.0%	\$ 2,455	33.9%
2011	July 1, 2009	-	\$ 831	831	0.0%	\$ 2,611	31.8%

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

OTHER SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	<u>Special Revenue Funds</u>		
	Manage- ment Levy	Student Activity	Total Special Revenue
Assets			
Cash and pooled investments	\$ 446,916	136,707	583,623
Receivables:			
Property tax:			
Current year delinquent	2,030	0	2,030
Succeeding year	100,000	0	100,000
Total Assets	<u>\$ 548,946</u>	<u>136,707</u>	<u>685,653</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 0	4,240	4,240
Deferred revenue:			
Succeeding year property tax	100,000	0	100,000
Total liabilities	<u>100,000</u>	<u>4,240</u>	<u>104,240</u>
Fund balances:			
Restricted for:			
Management levy purposes	448,946	0	448,946
Student activities	0	132,467	132,467
Total fund balances	<u>448,946</u>	<u>132,467</u>	<u>581,413</u>
Total Liabilities and Fund Balances	<u>\$ 548,946</u>	<u>136,707</u>	<u>685,653</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	Special Revenue Funds		
	Manage- ment Levy	Student Activity	Total Special Revenue Funds
REVENUES:			
Local sources:			
Local tax	\$ 200,025	0	200,025
Other	8,613	286,648	295,261
State sources	110	0	110
TOTAL REVENUES	208,748	286,648	495,396
EXPENDITURES:			
Current:			
Instruction:			
Regular	140,605	0	140,605
Other	0	287,901	287,901
Support services:			
Administration	715	0	715
Operation and maintenance of plant	32,511	0	32,511
Transportation	5,696	0	5,696
TOTAL EXPENDITURES	179,527	287,901	467,428
NET CHANGE IN FUND BALANCES	29,221	(1,253)	27,968
FUND BALANCES BEGINNING OF YEAR, AS RESTATED	419,725	133,720	553,445
FUND BALANCES END OF YEAR	\$ 448,946	132,467	581,413

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant & Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 331,062	230,268	561,330
Receivables:			
Property tax:			
Current year delinquent	0	749	749
Succeeding year	0	77,177	77,177
Due from other governments	67,824	0	67,824
Total Assets	\$ 398,886	308,194	707,080
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 7,000	1,055	8,055
Deferred revenue:			
Succeeding year property tax	0	77,177	77,177
Total liabilities	7,000	78,232	85,232
Fund balances:			
Restricted for:			
School infrastructure	391,886	0	391,886
Physical plant and equipment	0	229,962	229,962
Total fund balances	391,886	229,962	621,848
Total Liabilities and Fund Balances	\$ 398,886	308,194	707,080

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS
 YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 369,216	73,828	443,044
Other	2,629	9,115	11,744
State sources	0	41	41
TOTAL REVENUES	371,845	82,984	454,829
EXPENDITURES:			
Current:			
Instruction:			
Administration services	0	470	470
Operation and maintenance of plant services	0	14,732	14,732
Other expenditures:			
Facilities acquisitions	431,255	29,851	461,106
TOTAL EXPENDITURES	431,255	45,053	476,308
NET CHANGE IN FUND BALANCES	(59,410)	37,931	(21,479)
FUND BALANCES BEGINNING OF YEAR, AS RESTATED	451,296	192,031	643,327
FUND BALANCES END OF YEAR	\$ 391,886	229,962	621,848

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
JH heritage trip	\$ 303	32,940	32,841	0	403
Drama	4,847	12,435	1,425	(8,466)	10,357
Winterguard fund	428	3,633	4,386	1,007	682
Instrumental music	292	0	3,712	3,712	292
Vocal music	4,682	1,468	4,850	3,746	5,046
Band uniforms	8,033	113	0	0	8,146
Athletics	29,161	61,061	68,530	0	20,516
Football	3,525	6,592	3,219	0	6,898
District 6 football	538	200	13	0	725
Baseball	1,335	2,703	3,313	0	725
Golf team	589	204	788	0	5
Boys basketball	2,388	4,243	6,471	0	160
Girls BB camp	2,644	9,373	8,523	0	3,494
Volleyball	584	3,430	3,376	0	638
Wrestling	5,478	4,657	5,581	0	4,554
German club	1,022	0	1,022	0	0
Class of 2017	0	0	0	53	53
Class of 2015	0	0	0	53	53
Class of 2013	9	331	101	82	321
Class of 2012	505	12,450	12,246	0	709
Class of 2011	1,617	93	1,710	0	0
Class of 2010	455	0	350	(105)	0
Torch club	328	286	50	55	619
FFA	24,675	53,798	52,979	0	25,494
JH student council	1,071	0	133	0	938
HS student council	1,623	914	881	0	1,656
Cheerleaders	866	3,640	3,649	0	857
School Clay Target Shooting Club	3,458	23,761	20,697	0	5,632
Spanish club	8,945	32,164	31,810	0	8,399
Summer recreation	3,355	0	2,915	0	440
Publications	9,181	14,640	9,523	0	14,298
Elementary activities	11,369	39	2,417	0	8,991
High School activities	277	1,359	391	0	1,245
Now Account	55	44	0	(55)	44
Interest	82	77	0	(82)	77
Total	\$ 133,720	286,648	287,901	0	132,467

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 JUNE 30, 2011

	Private Purpose Trust - Scholarship Fund					
	Miscellaneous Scholarship	Ellis Scholarship	Elementary Playground	PAC Walk-A-Thon	Math Fair	Total
ASSETS						
Cash and pooled investments	\$ 1,750	35,561	9,417	6,481	1,231	54,440
LIABILITIES						
Accounts payable	0	0	0	3,981	0	3,981
NET ASSETS						
Reserved for scholarships	\$ 1,750	35,561	9,417	2,500	1,231	50,459

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust - Scholarship Fund							Total
	Miscellaneous Scholarship	Ellis Scholarship	Playground Fund	PAC Walk-A-Thon	Math Fair	FFA Scholarship	German Scholarship	
Additions:								
Local sources:								
Contributions	1,000	0	10,324	300	602	950	1,022	14,198
	1,000	0	10,324	300	602	950	1,022	14,198
Deductions:								
Non-instructional:								
Scholarships awarded	1,500	500	4,917	20,054	1,771	200	572	29,514
Changes in net assets	(500)	(500)	5,407	(19,754)	(1,169)	750	450	(15,316)
Net assets beginning of year	2,250	36,061	4,010	22,254	2,400	(750)	(450)	65,775
Net assets end of year	\$ 1,750	35,561	9,417	2,500	1,231	0	0	50,459

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2011

	Beginning Balance	Additions	Deductions	Ending Balance
FLOWER FUND				
Assets:				
Cash and other investments	\$ 1,686	180	368	1,498
Liabilities:				
Due to other groups	\$ 1,686	180	368	1,498

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 3,110,907	2,908,824	2,677,068	2,499,083	2,585,499	2,370,528	2,467,051	1,859,848
Tuition	205,759	175,571	349,736	362,711	378,226	300,238	356,290	335,115
Other	354,582	318,265	359,801	351,247	451,429	416,211	272,098	723,866
Intermediate	0	0	0	0	0	0	4,961	0
State	2,399,102	1,863,160	2,043,153	2,320,267	2,157,497	2,147,777	2,130,751	1,984,365
Federal	327,849	509,461	138,657	118,463	148,140	143,666	132,406	125,043
Total	<u>\$ 6,398,199</u>	<u>5,775,281</u>	<u>5,568,415</u>	<u>5,651,771</u>	<u>5,720,791</u>	<u>5,378,420</u>	<u>5,363,557</u>	<u>5,028,237</u>
Expenditures:								
Instruction:								
Regular	\$ 2,447,007	2,535,325	2,425,972	2,203,299	2,121,232	2,144,063	1,939,282	1,856,224
Special	553,318	713,520	696,045	566,180	651,536	756,251	817,580	820,977
Other	971,977	629,225	573,556	814,922	783,579	573,994	579,420	593,525
Support services:								
Student	29,747	16,747	16,852	6,546	26,394	31,655	61,655	60,648
Instructional staff	97,998	127,684	141,070	117,671	134,386	97,900	127,590	125,909
Administration	579,320	526,741	506,252	512,779	558,228	455,873	522,741	495,998
Operation and maintenance								
of plant	363,509	340,675	505,780	359,518	367,355	375,074	293,112	340,600
Transportation	209,571	275,611	187,366	305,327	199,974	220,386	156,137	149,656
Non-instructional:	0	0	0	0	400	0	0	0
Other expenditures:								
Facilities acquisition	461,106	314,586	301,374	217,052	216,474	243,510	127,630	65,456
Long-term debt:								
Principal	0	0	0	11,239	10,802	57,126	213,784	145,000
Interest	0	0	0	455	893	2,218	6,922	13,278
AEA flowthrough	227,938	223,493	175,942	173,783	166,591	162,058	158,921	159,207
Total	<u>\$ 5,941,491</u>	<u>5,703,607</u>	<u>5,530,209</u>	<u>5,288,771</u>	<u>5,237,844</u>	<u>5,120,108</u>	<u>5,004,774</u>	<u>4,826,478</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 27, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the internal control described in Part I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

Compliance and Other Matters

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

that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

February 27, 2012

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MONTEZUMA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - District expenditures for the year ended June 30, 2011 did not exceed the certified amounts in the functional areas.

II-B-11 Questionable Disbursements - We noted during our audit that the District purchased clothing for coaches out of the Special Revenue, Student Activity Fund.

Recommendation - Article III, Section 31 of the Constitution of the State of Iowa requires that public funds may only be spent for the public benefit. Since Student Activity Funds are "public funds" the District must determine the propriety and document the public purpose and public benefit to be derived. The District should establish a policy to preclude purchases of personal clothing from public funds, and/or define the exceptions, if any, including the requirement for Board consideration, documentation of public purpose and approval.

The District may wish to refrain from allowing public funds to be used to purchase personal items of clothing under any circumstances since this establishes a precedent which may be difficult to justify and/or administer fairly and consistently among employees and student groups.

A better alternative may be to ask the Booster Club or other affiliated organization to provide clothing such as team jackets for coaches, to District employees in lieu of using public funds.

Response - Coaches clothing will not be purchased from the Student Activity Fund. It has been expressed to the coaches that they should approach the Booster Club for their coaches clothing, or have the coaches purchase their own clothing for the season.

Conclusion - Response accepted.

II-C-11 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.

II-D-11 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-11 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificate of Deposit.

Recommendation - The District should contact the appropriate bank and rectify the situation.

Response - The bank has been notified of the problem, has deposited the interest due into the Activity checking account, and has changed the CD to reflect the correct interest rate.

Conclusion - Response accepted.

II-J-11 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.

II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-11 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. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$	451,296
Revenues:			
Statewide sales and services tax revenue			369,216
Other local revenues			2,629
Total Revenues			<u>371,845</u>
Expenditures:			
School Infrastructure Construction	311,195		
Equipment	82,928		
Other	37,132		
			<u>431,255</u>
Ending Balance		\$	<u><u>391,886</u></u>

For the year ended June 30, 2011, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars Reduced
Physical plant and equipment levy	\$ 1.34000	\$ 299,749

II-M-11 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - Officiating Contracts will be signed by the Board President.

Conclusion - Response accepted.

II-N-11 Student Activity Fund - We noted during our audit that the Student Activity fund is not allocating interest on an annual basis.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - As per board motion, all interest in the Student Activity Fund is being allocated to the High School Student Council account.

Conclusion - Response accepted.