

MONTEZUMA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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**Montezuma Community School District**

**Officials**

**Board of Education**

**(Before September 2011 Electon)**

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

**(After September 2011 Electon)**

Pete Ross	President	2015
Doug Johnston	Vice President	2015
Vince Johnson	Board Member	2013
Steve Audas	Board Member	2013
Stacie Cameron	Board Member	2015

**School Officials**

Dave VerSteeg	Superintendent	2012
Anita Sietstra	Board Secretary/ Treasurer	2012
Ahlers & Cooney	District Attorney	2012

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, 2012, 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, 2012, 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 January 7, 2013 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the

basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 seven years ended June 30, 2011 (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. The 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.

January 7, 2013

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

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Montezuma Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$5,458,152 in fiscal year 2011 to \$5,316,726 in fiscal year 2012, while General Fund expenditures also increased from \$4,997,755 in fiscal 2011 to \$5,058,697 in fiscal 2012. The District's General Fund balance increased from \$1,080,029 in fiscal 2011 to \$1,338,058 in fiscal 2012.
- The decrease in General Fund revenues was attributable primarily to an decrease in state and federal sources. The increase in expenditures was due primarily to an increase in the instructional and administration functional areas affected by increase in contracts and supplies.
- Overall, the District increased net assets in the governmental activities by \$352,521, and decreased in the business type activities by \$12,420, respectively.

### **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.

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.

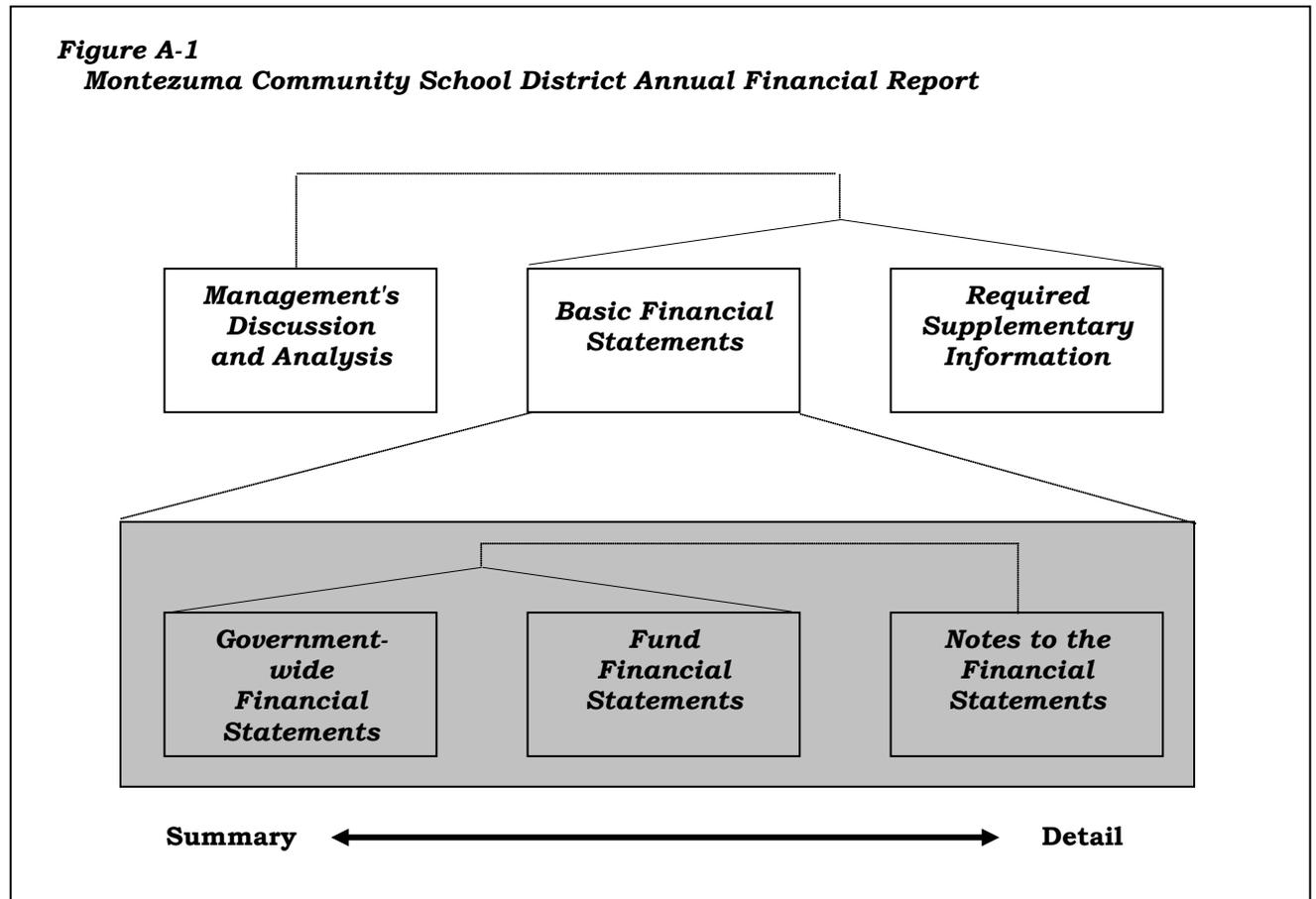


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition 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, 2012 compared to June 30, 2011.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 6,247,275	5,663,215	57,830	64,786	6,305,105	5,728,001	10.08%
Capital assets	1,676,482	1,692,912	65,396	68,698	1,741,878	1,761,610	-1.12%
Total assets	<u>7,923,757</u>	<u>7,356,127</u>	<u>123,226</u>	<u>133,484</u>	<u>8,046,983</u>	<u>7,489,611</u>	<u>7.44%</u>
Long-term obligations	376,293	430,853	5,920	6,311	382,213	437,164	-12.57%
Other liabilities	3,450,455	3,125,792	13,695	11,142	3,464,150	3,136,934	10.43%
Total liabilities	<u>3,826,748</u>	<u>3,556,645</u>	<u>19,615</u>	<u>17,453</u>	<u>3,846,363</u>	<u>3,574,098</u>	<u>7.62%</u>
Net assets:							
Invested in capital assets, net of related debt	1,676,482	1,692,912	65,396	68,698	1,741,878	1,761,610	-1.12%
Restricted	1,186,189	986,720	0	0	1,186,189	986,720	20.22%
Unrestricted	1,234,338	1,119,850	38,215	47,333	1,272,553	1,167,183	9.03%
Total net assets	<u>\$ 4,097,009</u>	<u>3,799,482</u>	<u>103,611</u>	<u>116,031</u>	<u>4,200,620</u>	<u>3,915,513</u>	<u>7.28%</u>

The District’s combined net assets increased by 7.28% over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 20.22% compared to prior year. The increase was primarily a result of the increase in fund balance in the Capital Projects: Statewide Sales, Services and Use Tax and Physical Plant and Equipment Levy Fund and the General 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 9.03% from the prior year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 as compared to the year ended 2011.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 485,402	481,547	171,483	153,046	656,885	634,593	3.51%
Operating grants and contributions and restricted interest	531,251	794,924	129,030	102,492	660,281	897,416	-26.42%
Capital grants and contributions and restricted interest	25,000	0	0	0	25,000	0	100.00%
General revenues:							
Local tax	2,860,703	2,771,109	0	0	2,860,703	2,771,109	3.23%
Statewide sales, service and use tax	415,748	369,216	0	0	415,748	369,216	12.60%
Unrestricted state grants	1,755,477	1,768,367	0	0	1,755,477	1,768,367	-0.73%
Nonspecific program federal funding	1,671	169,131	0	0	1,671	169,131	100.00%
Other	86,865	73,323	34	62	86,899	73,385	18.42%
Total revenues and transfers	6,162,117	6,427,617	300,547	255,600	6,462,664	6,683,217	-3.30%
Program expenses:							
Governmental activities:							
Instruction	4,058,846	4,063,220	0	0	4,058,846	4,063,220	-0.11%
Support services	1,678,401	1,309,423	0	0	1,678,401	1,309,423	28.18%
Non-instructional programs	0	0	312,973	264,847	312,973	264,847	18.17%
Other expenses	304,708	418,497	0	0	304,708	418,497	-27.19%
Total expenses	6,041,955	5,791,140	312,973	264,847	6,354,928	6,055,987	4.94%
Change in net assets before extraordinary items	120,162	636,477	(12,426)	(9,247)	107,736	627,230	-82.82%
Extraordinary items:							
Reorganization settlement	177,365	0	6	0	177,371	0	100.00%
Change in net assets	297,527	636,477	(12,420)	(9,247)	285,107	627,230	0
Net assets beginning of year	3,799,482	3,163,005	116,031	125,278	3,915,513	3,288,283	19.07%
Net assets end of year	\$ 4,097,009	3,799,482	103,611	116,031	4,200,620	3,915,513	7.28%

In fiscal 2012, local tax, statewide sales and services tax, and unrestricted state grants account for 81.66% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.99% of the revenue from business type activities.

The District's total revenues were \$6,462,664 of which \$6,162,117 was for governmental activities and \$300,547 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3.30% decrease in revenues and a 4.94% increase in expenses. The increase in expenses was related to increases in instruction and administration services expenditures.

### Governmental Activities

Revenues for governmental activities were \$6,162,117 and expenses were \$6,041,955.

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		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 4,058,846	4,063,220	-0.11%	3,251,654	3,017,928	7.74%
Support services	1,678,401	1,309,423	28.18%	1,652,372	1,306,182	26.50%
Other expenses	304,708	418,497	-27.19%	96,276	190,559	-49.48%
Totals	\$ 6,041,955	5,791,140	4.33%	5,000,302	4,514,669	10.76%

- The cost financed by users of the District's programs was \$485,402.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$531,251.
- The net cost of governmental activities was financed with \$25,000 in capital grants and contributions, \$2,860,703 in local tax, \$415,748 in statewide sales, services and use tax, \$1,755,477 in unrestricted state grants, \$1,671 in non-specific program federal funding, \$1,265 in interest income and \$85,600 in other general revenues.

### Business type Activities

Revenues of the District's business type activities were \$300,547 and expenses were \$312,973. 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 \$2,550,658, above last year's ending fund balances of \$2,283,290, an increase of 11.71% over the prior year.

### **Governmental Fund Highlights**

- The District's General Fund financial position changed from \$1,080,029 in Fiscal 2011 to \$1,338,058 in fiscal 2012. This was due to the increase in local revenue sources.
- The District's Capital Projects Fund increased from \$621,848 in Fiscal 2011, to an ending fund balance of \$682,232. The increase is due to an increase in local and federal revenue sources.
- The District's Debt Service Fund increased from \$0 in Fiscal 2011, to an ending fund balance of \$409 in fiscal 2012. This increase was due to the money the district got from the reorganization settlement received from English Valleys Community School District.

### **Proprietary Funds Highlights**

The School Nutrition Fund net assets decreased from \$116,031 at June 30, 2011 to \$103,611 at June 30, 2012, representing a decrease of 10.70%.

### **CERTIFIED BUDGETARY HIGHLIGHTS**

The District's revenues were \$151,331 more than budgeted revenues, a variance of 2.40%. The most significant variance resulted from the District receiving more in local 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, 2012, the District had invested \$1,741,878, 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 \$197,947.

The original cost of the District's capital assets was \$5,434,597. Governmental funds account for \$5,266,037 with the remainder of \$168,560 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements category decreased due to depreciation expense taken during the year.

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,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 169,873	169,873	0	0	169,873	169,873	0.00%
Buildings	1,196,617	1,184,581	0	0	1,196,617	1,184,581	1.02%
Land improvements	56,546	63,187	0	0	56,546	63,187	-10.51%
Machinery and equipment	253,446	275,271	65,396	68,698	318,842	343,969	-7.31%
Total	\$ 1,676,482	1,692,912	65,396	68,698	1,741,878	1,761,610	-1.12%

### Long-Term Debt

At June 30, 2012, the District had \$382,213 in long-term debt outstanding. This represents an decrease of 12.57% 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

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Early retirement	\$ 243,257	338,270	0	4,550	243,257	342,820	-29.04%
Net OPEB liability	133,036	92,583	5,920	1,761	138,956	94,344	47.29%
Totals	\$ 376,293	430,853	5,920	6,311	382,213	437,164	-12.57%

## 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 4<sup>th</sup> Street, Box 580, Montezuma, Iowa, 50171.

MONTEZUMA COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 3,048,046	48,245	3,096,291
Receivables:			
Property tax:			
Delinquent	25,806	0	25,806
Succeeding year	2,764,072	0	2,764,072
Income surtax	246,162	0	246,162
Accounts	640	362	1,002
Due from other governments	162,549	4,670	167,219
Inventories	0	4,553	4,553
Capital assets, net of accumulated depreciation	1,676,482	65,396	1,741,878
<b>Total Assets</b>	<b>7,923,757</b>	<b>123,226</b>	<b>8,046,983</b>
<b>Liabilities</b>			
Accounts payable	171,677	1,735	173,412
Good faith deposit	66,700	0	66,700
Salaries and benefits payable	448,006	8,043	456,049
Deferred revenue			
Succeeding year property tax	2,764,072	0	2,764,072
Unearned revenue		3,917	3,917
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	56,907	0	56,907
Portion due after one year:			
Early retirement payable	186,350	0	186,350
Net OPEB liability	133,036	5,920	138,956
<b>Total Liabilities</b>	<b>3,826,748</b>	<b>19,615</b>	<b>3,846,363</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,676,482	65,396	1,741,878
Restricted for:			
Catergorical funding	108,371	0	108,371
Debt service	409	0	409
Student activities	134,851	0	134,851
Management levy	151,851	0	151,851
School infrastructure	549,969	0	549,969
Physical plant and equipment	240,738	0	240,738
Unrestricted	1,234,338	38,215	1,272,553
<b>Total Net Assets</b>	<b>\$ 4,097,009</b>	<b>103,611</b>	<b>4,200,620</b>

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants, Charges for Services		Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
		Interest	Interest				
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 2,543,096	272,367	145,993	0	(2,124,736)	0	(2,124,736)
Special	565,475	11,682	26,504	0	(527,289)	0	(527,289)
Other	950,275	200,987	149,659	0	(599,629)	0	(599,629)
	<u>4,058,846</u>	<u>485,036</u>	<u>322,156</u>	<u>0</u>	<u>(3,251,654)</u>	<u>0</u>	<u>(3,251,654)</u>
Support services:							
Student	15,489	0	0	0	(15,489)	0	(15,489)
Instructional staff	97,081	0	0	0	(97,081)	0	(97,081)
Administration	738,665	0	0	0	(738,665)	0	(738,665)
Operation and maintenance							
of plant	577,926	0	0	25,000	(552,926)	0	(552,926)
Transportation	249,240	366	663	0	(248,211)	0	(248,211)
	<u>1,678,401</u>	<u>366</u>	<u>663</u>	<u>25,000</u>	<u>(1,652,372)</u>	<u>0</u>	<u>(1,652,372)</u>
Other expenditures:							
AEA flowthrough	208,432	0	208,432	0	0	0	0
Depreciation(unallocated)*	96,276	0	0	0	(96,276)	0	(96,276)
	<u>304,708</u>	<u>0</u>	<u>208,432</u>	<u>0</u>	<u>(96,276)</u>	<u>0</u>	<u>(96,276)</u>
Total governmental activities	<u>6,041,955</u>	<u>485,402</u>	<u>531,251</u>	<u>25,000</u>	<u>(5,000,302)</u>	<u>0</u>	<u>(5,000,302)</u>
Business Type activities:							
Non-instructional programs:							
Nutrition services	312,973	171,483	129,030	0	0	(12,460)	(12,460)
Total business type activities	<u>312,973</u>	<u>171,483</u>	<u>129,030</u>	<u>0</u>	<u>0</u>	<u>(12,460)</u>	<u>(12,460)</u>
Total	<u>\$ 6,354,928</u>	<u>656,885</u>	<u>660,281</u>	<u>25,000</u>	<u>(5,000,302)</u>	<u>(12,460)</u>	<u>(5,012,762)</u>
<b>General Revenues and Transfers:</b>							
General Revenues:							
Local tax for:							
General purposes					\$ 2,532,572	0	2,532,572
Capital outlay					77,245	0	77,245
Income surtax					250,886	0	250,886
Statewide sales, services and use tax					415,748	0	415,748
Unrestricted state grants					1,755,477	0	1,755,477
Nonspecific program federal funding					1,671	0	1,671
Unrestricted investment earnings					1,265	34	1,299
Other					85,600	0	85,600
Total general revenues and transfers					<u>5,120,464</u>	<u>34</u>	<u>5,120,498</u>
Change in net assets before extraordinary items					120,162	(12,426)	107,736
<b>Extraordinary items:</b>							
Reorganization settlement					177,365	6	177,371
Changes in net assets					297,527	(12,420)	285,107
Net assets beginning of year					3,799,482	116,031	3,915,513
Net assets end of year					<u>\$ 4,097,009</u>	<u>103,611</u>	<u>4,200,620</u>

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Debt Service	Capital Projects	Other	Total
				Nonmajor Governmental Funds	
<b>Assets</b>					
Cash and pooled investments	\$ 1,720,045	409	776,217	551,375	3,048,046
Receivables:					
Property tax:					
Delinquent	24,052	0	764	990	25,806
Succeeding year	2,147,522	484,549	82,001	50,000	2,764,072
Income surtax	246,162	0	0	0	246,162
Due from other funds	1,804	0	0	0	1,804
Accounts	640	0	0	0	640
Due from other governments	109,367	0	53,182	0	162,549
<b>Total Assets</b>	<b>\$ 4,249,592</b>	<b>484,958</b>	<b>912,164</b>	<b>602,365</b>	<b>6,249,079</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 69,844	0	81,231	20,602	171,677
Good faith deposit	0	0	66,700	0	66,700
Due to other funds	0	0	0	1,804	1,804
Due to other governments	0	0	0	0	0
Salaries and benefits payable	448,006	0	0	0	448,006
Deferred revenue:					
Succeeding year property tax	2,147,522	484,549	82,001	50,000	2,764,072
Income surtax	246,162	0	0	0	246,162
Total liabilities	2,911,534	484,549	229,932	72,406	3,698,421
Fund balances:					
Restricted for:					
Categorical funding	108,371	0	0	0	108,371
Management levy purposes	0	0	0	395,108	395,108
Student activities	0	0	0	134,851	134,851
School infrastructure	0	0	549,969	0	549,969
Physical plant and equipment	0	0	240,738	0	240,738
Debt service	0	409	0	0	409
Unassigned					
General	1,229,687	0	0	0	1,229,687
Capital projects	0	0	(108,475)	0	(108,475)
Total fund balances	1,338,058	409	682,232	529,959	2,550,658
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,249,592</b>	<b>484,958</b>	<b>912,164</b>	<b>602,365</b>	<b>6,249,079</b>

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2012

**Total fund balances of governmental funds(page 20)** \$ 2,550,658

***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. 1,676,482

Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. 246,162

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. (376,293)

**Net assets of governmental activities(page 18)** \$ 4,097,009

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,691,340	0	492,993	100,089	3,284,422
Tuition	254,964	0	0	0	254,964
Other	115,999	0	214	248,731	364,944
State sources	2,054,670	0	0	0	2,054,670
Federal sources	186,088	0	25,000	0	211,088
Total revenues	<u>5,303,061</u>	<u>0</u>	<u>518,207</u>	<u>348,820</u>	<u>6,170,088</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	2,348,529	0	112,556	126,756	2,587,841
Special	562,669	0	0	0	562,669
Other	706,838	0	0	242,018	948,856
	<u>3,618,036</u>	<u>0</u>	<u>112,556</u>	<u>368,774</u>	<u>4,099,366</u>
Support services:					
Student	15,489	0	0	0	15,489
Instructional staff	80,319	0	0	0	80,319
Administration	584,835	0	2,357	1,710	588,902
Operation and maintenance of plant	373,408	0	15,724	30,748	419,880
Transportation	178,178	0	32,289	6,408	216,875
	<u>1,232,229</u>	<u>0</u>	<u>50,370</u>	<u>38,866</u>	<u>1,321,465</u>
Capital outlay	0	0	441,772	0	441,772
Other expenditures:					
AEA flowthrough	208,432	0	0	0	208,432
	<u>208,432</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>208,432</u>
Total expenditures	<u>5,058,697</u>	<u>0</u>	<u>604,698</u>	<u>407,640</u>	<u>6,071,035</u>
Excess(deficiency) of revenues over(under) expenditures	244,364	0	(86,491)	(58,820)	99,053
Other financing sources:					
Reorganization settlement	12,165	409	157,425	7,366	177,365
GO bond issuance cost	0	0	(10,550)	0	(10,550)
Sale of equipment	1,500	0	0	0	1,500
Total other financing sources	<u>13,665</u>	<u>409</u>	<u>146,875</u>	<u>7,366</u>	<u>168,315</u>
Net change in fund balances	258,029	409	60,384	(51,454)	267,368
Fund balances beginning of year	1,080,029	0	621,848	581,413	2,283,290
Fund balances end of year	<u>\$ 1,338,058</u>	<u>409</u>	<u>682,232</u>	<u>529,959</u>	<u>2,550,658</u>

SEE NOTES TO 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, 2012

Net change in fund balances - total governmental funds(page 22) \$ 267,368

**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	\$ (187,978)	
Capital outlay expenditures	<u>171,548</u>	(16,430)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(7,971)
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 95,013	
Other Postemployment Benefits	<u>(40,453)</u>	<u>54,560</u>

Changes in net assets of governmental activities(page 19)		<u><u>\$ 297,527</u></u>
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MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

	School Nutrition
<b>Assets</b>	
Cash and pooled investments	\$ 48,245
Accounts receivable	362
Due from other governments	4,670
Inventories	4,553
Capital assets, net of accumulated depreciation	65,396
<b>Total Assets</b>	<b>123,226</b>
 <b>Liabilities</b>	
Accounts payable	1,735
Salaries and benefits payable	8,043
Unearned revenues	3,917
Net OPEB liability	5,920
<b>Total Liabilities</b>	<b>19,615</b>
 <b>Net Assets</b>	
Invested in capital assets	65,396
Unrestricted	38,215
<b>Total Net Asset</b>	<b>\$ 103,611</b>

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 170,334
Miscellaneous	1,149
TOTAL OPERATING REVENUES	171,483
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	92,787
Benefits	34,454
Services	251
Supplies	175,513
Depreciation	9,968
	312,973
TOTAL OPERATING EXPENSES	312,973
OPERATING LOSS	(141,490)
NON-OPERATING REVENUES:	
State sources	2,486
Federal sources	126,544
Interest income	34
TOTAL NON-OPERATING REVENUES	129,064
Net loss before other financing sources	(12,426)
OTHER FINANCING SOURCES:	
Reorganization settlement	6
Changes in net assets	(12,420)
Net assets beginning of year	116,031
Net assets end of year	\$ 103,611

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 170,318
Cash received from miscellaneous operating activities	1,155
Cash payments to employees for services	(127,160)
Cash payments to suppliers for goods or services	(154,849)
Net cash used in operating activities	(110,536)
Cash flows from non-capital financing activities:	
State grants received	2,486
Federal grants received	106,954
Net cash provided by non-capital financing activities	109,440
Cash flows from capital and related financing activities:	
Purchase of capital assets	(6,666)
Net cash used in capital and related financing activities	(6,666)
Cash flows from investing activities:	
Interest on investments	34
Net cash provided by investing activities	34
Net decrease in cash and cash equivalents	(7,728)
Cash and cash equivalents at beginning of year	55,973
Cash and cash equivalents at end of year	\$ 48,245
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (141,484)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,920
Depreciation	9,968
Decrease in inventories	4,260
Increase in accounts receivable	(362)
Increase in accounts payable	1,735
Increase in salaries and benefits payable	472
Increase in unearned revenue	346
Increase in net OPEB	4,159
Decrease in early retirement payable	(4,550)
Net cash used in operating activities	\$ (110,536)

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$14,920.

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	Private Purpose Trust Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 41,866	1,642
LIABILITIES		
Due to other groups	0	1,642
TOTAL LIABILITIES	0	1,642
NET ASSETS		
Restricted for scholarships	\$ 41,866	0

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2012

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest	661
Contributions	\$ 21,057
Total additions	<u>21,718</u>
Deductions:	
Non-instructional:	
Scholarships awarded	<u>30,311</u>
Change in net assets	(8,593)
Net assets beginning of year	<u>50,459</u>
Net assets end of year	<u>\$ 41,866</u>

SEE NOTES TO FINANCIAL STATEMENTS

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

(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 Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

The District reports the following non-major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

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

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

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, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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.

<u>Asset Class</u>	<u>Amount</u>
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:

<u>Asset Class</u>	<u>Estimated Useful Life (In Years)</u>
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, 2012 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, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$2,850,569 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) Due From and Due to Other Funds**

The detail of interfund receivables and payables at June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue, Student Activity	\$ 1,804

The Student Activity Fund is repaying the General Fund to move an exclusive vendor contract commission that was incorrectly recorded in the Student Activity Fund.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2012 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
Total capital assets not being depreciated	169,873	0	0	169,873
Capital assets being depreciated:				
Buildings	3,844,503	101,672	0	3,946,175
Land improvements	147,615	0	0	147,615
Machinery and equipment	932,497	69,877	0	1,002,374
Total capital assets being depreciated	4,924,615	171,549	0	5,096,164
Less accumulated depreciation for:				
Buildings	2,659,922	89,636	0	2,749,558
Land improvements	84,428	6,641	0	91,069
Machinery and equipment	657,226	91,702	0	748,928
Total accumulated depreciation	3,401,576	187,979	0	3,589,555
Total capital assets being depreciated, net	1,523,039	(16,430)	0	1,506,609
Governmental activities capital assets, net	\$ 1,692,912	(16,430)	0	1,676,482

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 161,894	6,666	0	168,560
Less accumulated depreciation	93,196	9,968	0	103,164
Business type activities capital assets, net	\$ 68,698	(3,302)	0	65,396

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 2,577
Support services:		
Administration		11,300
Operation and maintenance of plant		10,192
Transportation		67,633
		<u>91,702</u>
Unallocated depreciation		<u>96,277</u>
Total governmental activities depreciation expense		<u>\$ 187,979</u>
Business type activities:		
Food services		<u>\$ 9,968</u>

#### (5) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Net OPEB Liability	\$ 92,583	40,453	0	133,036	0
Early retirement	338,270	0	95,013	243,257	56,907
Total	\$ 430,853	40,453	95,013	376,293	56,907
Business type activities:					
Net OPEB Liability	\$ 1,761	4,159	0	5,920	0
Early retirement	4,550	0	4,550	0	0
Total	\$ 6,311	4,159	4,550	5,920	0

#### 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, 2012, totaled \$99,563. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) 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 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$239,452, \$205,505, and \$199,462 respectively, equal to the required contributions for each year.

**(7) 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, 2012, 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	4,245
Adjustment to annual required contribution	(3,633)
Annual OPEB cost	<u>126,612</u>
Contributions made	<u>(82,000)</u>
Increase in net OPEB obligation	44,612
Net OPEB obligation - beginning of year	<u>94,344</u>
Net OPEB obligation - end of year	<u><u>\$ 138,956</u></u>

For the calculation of the net OPEB obligation, the actuary has set the transition day as July, 1 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$82,000 to the plan. Plan members eligible for benefits contributed \$101,000 or 55.2% 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, 2012 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	\$126,344	67.3%	\$94,344
2012	\$126,612	64.8%	\$138,956

Funded Status and Funding Progress - As of July 1, 2010, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, 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 \$2.626 million and the ratio of the UAAL to covered payroll was 31.6%. As of June 30, 2012 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, 2010 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.

**(8) 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.

**(9) 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 \$208,432 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Categorical Funding**

The District's ending restricted fund balances for categorical funding at June 30, 2012 is comprised of the following programs:

Program	Amount
Talented and gifted	\$ 19,835
Statewide voluntary preschool	28,259
Teacher salary supplement	19,371
Professional development for model core curriculum	2,872
Professional development	11,485
At-Risk	26,549
Total	\$ 108,371

**(11) Deficit Fund Balance**

The District had a deficit unassigned fund balance in the Capital Projects: Capital Projects Construction Fund of \$108,475.

**(12) Extraordinary Items**

On September 16, 2008 Deep-River Millersburg Community School District voted to reorganize with English Valleys Community School District, as of July 1, 2009. As a part of the reorganization 52 students came to the Montezuma Community School District. During the year ended June 30, 2012 English Valleys Community School District agreed to pay \$177,371 to Montezuma Community School District as part of the merger.

The breakout of the payment from English Valleys Community School District is as follows:

Fund	Amount Received
General	\$ 12,165
Student Activity	2,119
Management Levy	5,247
Capital Projects; Statewide Sales, Services and Use Tax	116,678
Capital Projects; Physical Plant & Equipment Levy	40,747
Debt Service	409
Nutrition	6
	\$ 177,371

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, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 3,904,330	171,517	4,075,847	3,860,566	3,860,566	215,281
State sources	2,054,670	2,486	2,057,156	2,108,938	2,108,938	(51,782)
Federal sources	211,088	126,544	337,632	349,800	349,800	(12,168)
Total revenues	<u>6,170,088</u>	<u>300,547</u>	<u>6,470,635</u>	<u>6,319,304</u>	<u>6,319,304</u>	<u>151,331</u>
Expenditures/expenses:						
Instruction	4,099,366	0	4,099,366	4,305,000	4,305,000	205,634
Support services	1,321,465	0	1,321,465	1,719,000	1,719,000	397,535
Non-instructional programs	0	312,973	312,973	325,000	325,000	12,027
Other expenditures	650,204	0	650,204	1,030,725	1,030,725	380,521
Total expenditures/expenses	<u>6,071,035</u>	<u>312,973</u>	<u>6,384,008</u>	<u>7,379,725</u>	<u>7,379,725</u>	<u>995,717</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	99,053	(12,426)	86,627	(1,060,421)	(1,060,421)	1,147,048
Other financing sources, net	<u>168,315</u>	<u>6</u>	<u>168,321</u>	<u>0</u>	<u>0</u>	<u>168,321</u>
Excess(Deficiency) of revenues and other financing sources(uses) over expenditures/expenses	267,368	(12,420)	254,948	(1,060,421)	(1,060,421)	1,315,369
Balance beginning of year	<u>2,283,290</u>	<u>116,031</u>	<u>2,399,321</u>	<u>2,330,174</u>	<u>2,330,174</u>	<u>69,147</u>
Balance end of year	<u>\$ 2,550,658</u>	<u>103,611</u>	<u>2,654,269</u>	<u>1,269,753</u>	<u>1,269,753</u>	<u>1,384,516</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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%
2012	July 1, 2009	-	\$ 831	831	0.0%	\$ 2,626	31.6%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	<u>Special Revenue Funds</u>		
	Manage- ment Levy	Student Activity	Total Special Revenue
<b>Assets</b>			
Cash and pooled investments	\$ 394,118	157,257	551,375
Receivables:			
Property tax:			
Delinquent	990	0	990
Succeeding year	50,000	0	50,000
<b>Total Assets</b>	<u>\$ 445,108</u>	<u>157,257</u>	<u>602,365</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 0	20,602	20,602
Due to other funds	0	1,804	1,804
Deferred revenue:			
Succeeding year property tax	50,000	0	50,000
Total liabilities	<u>50,000</u>	<u>22,406</u>	<u>72,406</u>
Fund balances:			
Restricted for:			
Management levy purposes	395,108	0	395,108
Student activities	0	134,851	134,851
Total fund balances	<u>395,108</u>	<u>134,851</u>	<u>529,959</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 445,108</u>	<u>157,257</u>	<u>602,365</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, 2012

	Special Revenue Funds		
	Manage- ment Levy	Student Activity	Total Special Revenue Funds
REVENUES:			
Local sources:			
Local tax	\$ 100,089	0	100,089
Other	6,448	242,283	248,731
TOTAL REVENUES	106,537	242,283	348,820
EXPENDITURES:			
Current:			
Instruction:			
Regular	126,756	0	126,756
Other	0	242,018	242,018
Support services:			
Administration	1,710	0	1,710
Operation and maintenance of plant	30,748	0	30,748
Transportation	6,408	0	6,408
TOTAL EXPENDITURES	165,622	242,018	407,640
Excess(deficiency) of revenues over(under) expenditures	(59,085)	265	(58,820)
OTHER FINANCING SOURCES:			
Reorganization settlement	5,247	2,119	7,366
NET CHANGE IN FUND BALANCES	(53,838)	2,384	(51,454)
FUND BALANCES BEGINNING OF YEAR	448,946	132,467	581,413
FUND BALANCES END OF YEAR	\$ 395,108	134,851	529,959

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Capital Projects Construction	Physical Plant & Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 522,554	13,219	240,444	776,217
Receivables:				
Property tax:				
Delinquent	0	0	764	764
Succeeding year	0	0	82,001	82,001
Due from other governments	53,182	0	0	53,182
<b>Total Assets</b>	<b>\$ 575,736</b>	<b>13,219</b>	<b>323,209</b>	<b>912,164</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 25,767	54,994	470	81,231
Good faith deposit	0	66,700	0	66,700
Deferred revenue:				
Succeeding year property tax	0	0	82,001	82,001
<b>Total liabilities</b>	<b>25,767</b>	<b>121,694</b>	<b>82,471</b>	<b>229,932</b>
Fund balances:				
Restricted for:				
School infrastructure	549,969	0	0	549,969
Physical plant and equipment	0	0	240,738	240,738
Unassigned	0	(108,475)	0	(108,475)
<b>Total fund balances</b>	<b>549,969</b>	<b>(108,475)</b>	<b>240,738</b>	<b>682,232</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 575,736</b>	<b>13,219</b>	<b>323,209</b>	<b>912,164</b>

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, 2012

	Capital Projects			
	Statewide Sales, Services and Use Tax	Capital Projects Construction	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 415,748	0	77,245	492,993
Other	156	0	58	214
Federal sources	0	0	25,000	25,000
TOTAL REVENUES	415,904	0	102,303	518,207
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	100,969	0	11,587	112,556
Support services:				
Administration services	0	0	2,357	2,357
Operation and maintenance of plant services	0	0	15,724	15,724
Transportation	32,289	0	0	32,289
Capital outlay	241,241	97,925	102,606	441,772
TOTAL EXPENDITURES	374,499	97,925	132,274	604,698
Excess(deficiency) of revenues over(under) expenditures	41,405	(97,925)	(29,971)	(86,491)
OTHER FINANCING SOURCES(USES):				
Reorganization settlement	116,678	0	40,747	157,425
GO bond issuance cost	0	(10,550)	0	(10,550)
TOTAL OTHER FINANCING SOURCES(USES)	116,678	(10,550)	40,747	146,875
NET CHANGE IN FUND BALANCES	158,083	(108,475)	10,776	60,384
FUND BALANCES BEGINNING OF YEAR	391,886	0	229,962	621,848
FUND BALANCES END OF YEAR	\$ 549,969	(108,475)	240,738	682,232

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
JH heritage trip	\$ 403	0	0	0	403
Drama	10,357	1,716	3,235	0	8,838
Winterguard fund	682	2,249	1,926	0	1,005
Instrumental music	292	658	0	0	950
Vocal music	5,046	2,726	3,078	0	4,694
Band uniforms	8,146	155	5,301	0	3,000
Athletics	20,516	54,423	62,660	0	12,279
Football	6,898	10,466	10,924	0	6,440
District 6 football	725	100	643	0	182
Baseball	725	4,955	5,280	0	400
Golf team	5	782	542	0	245
Boys basketball	160	3,560	3,074	0	646
Girls BB camp	3,494	5,318	6,565	0	2,247
Volleyball	638	4,659	3,570	0	1,727
Softball	0	719	435	0	284
Wrestling	4,554	6,250	5,269	0	5,535
Math club	0	1,231	267	0	964
Academic Fair	0	2,500	2,500	0	0
Class of 2017	53	0	0	0	53
Class of 2015	53	0	0	0	53
Class of 2013	321	11,654	11,351	0	624
Class of 2012	709	533	865	0	377
Class of 2014	0	392	100	0	292
Torch club	619	109	50	0	678
FFA	25,494	69,205	59,992	0	34,707
JH student council	938	1,115	794	0	1,259
HS student council	1,656	637	289	123	2,127
Cheerleaders	857	8,202	8,790	0	269
School Clay Target Shooting Club	5,632	21,780	22,417	0	4,995
Spanish club	8,399	16,426	10,536	0	14,289
Summer recreation	440	0	440	0	0
Publications	14,298	6,257	7,979	0	12,576
Elementary activities	8,991	4,856	2,345	0	11,502
High School activities	1,245	767	801	0	1,211
Now Account	44	1	0	(45)	0
Interest	77	1	0	(78)	0
<b>Total</b>	<b>\$ 132,467</b>	<b>244,402</b>	<b>242,018</b>	<b>0</b>	<b>134,851</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 PRIVATE PURPOSE TRUST - SCHOLARSHIP FUNDS  
 JUNE 30, 2012

	Private Purpose Trust - Scholarship Fund			
	Miscellaneous Scholarship	Ellis Scholarship	Elementary Playground	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,399	31,088	9,379	41,866
<b>NET ASSETS</b>				
Restricted for scholarships	\$ 1,399	31,088	9,379	41,866

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, 2012

	Private Purpose Trust - Scholarship Fund						
	Miscellaneous Scholarship	Ellis Scholarship	Elementary Playground	PAC Walk-A-Thon	Math Fair	FFA Scholarship	Total
Additions:							
Local sources:							
Interest	\$ 49	612	0	0	0	0	661
Contributions	2,850	0	17,007	0	200	1,000	21,057
	2,899	612	17,007	0	200	1,000	21,718
Deductions:							
Non-instructional:							
Scholarships awarded	3,250	5,085	17,045	2,500	1,431	1,000	30,311
Changes in net assets	(351)	(4,473)	(38)	(2,500)	(1,231)	0	(8,593)
Net assets beginning of year	1,750	35,561	9,417	2,500	1,231	0	50,459
Net assets end of year	\$ 1,399	31,088	9,379	0	0	0	41,866

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2012

	Beginning Balance	Additions	Deductions	Ending Balance
<b>FLOWER FUND</b>				
Assets:				
Cash and other investments	\$ 1,498	501	357	1,642
Liabilities:				
Due to other groups	\$ 1,498	501	357	1,642

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 NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 3,284,422	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	254,964	205,759	175,571	349,736	362,711	378,226	300,238	356,290	335,115
Other	364,944	354,582	318,265	359,801	351,247	451,429	416,211	272,098	723,866
Intermediate	0	0	0	0	0	0	0	4,961	0
State	2,054,670	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	211,088	327,849	509,461	138,657	118,463	148,140	143,666	132,406	125,043
Total	<u>\$ 6,170,088</u>	<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	\$ 2,587,841	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	562,669	553,318	713,520	696,045	566,180	651,536	756,251	817,580	820,977
Other	948,856	971,977	629,225	573,556	814,922	783,579	573,994	579,420	593,525
Support services:									
Student	15,489	29,747	16,747	16,852	6,546	26,394	31,655	61,655	60,648
Instructional staff	80,319	97,998	127,684	141,070	117,671	134,386	97,900	127,590	125,909
Administration	588,902	579,320	526,741	506,252	512,779	558,228	455,873	522,741	495,998
Operation and maintenance									
of plant	419,880	363,509	340,675	505,780	359,518	367,355	375,074	293,112	340,600
Transportation	216,875	209,571	275,611	187,366	305,327	199,974	220,386	156,137	149,656
Non-instructional:	0	0	0	0	0	400	0	0	0
Capital outlay	441,772	461,106	314,586	301,374	217,052	216,474	243,510	127,630	65,456
Long-term debt:									
Principal	0	0	0	0	11,239	10,802	57,126	213,784	145,000
Interest	0	0	0	0	455	893	2,218	6,922	13,278
Other expenditures:									
AEA flowthrough	208,432	227,938	223,493	175,942	173,783	166,591	162,058	158,921	159,207
Total	<u>\$ 6,071,035</u>	<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)**

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

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Montezuma Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2013. 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

The management of Montezuma Community School District is responsible for establishing and maintaining effective 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-12 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

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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, 2012 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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 - We are reviewing our internal control procedures and plan to make changes to involve more people in the process. One of the main areas we're changing is cash receipts: different people collecting money, preparing deposit ticket, posting cash receipts, etc.

Conclusion - Response accepted.

MONTEZUMA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

Part II: Other Findings Related to Required Statutory Reporting:

II-A-12 Certified Budget - District expenditures for the year ended June 30, 2012 did not exceed the certified amounts in the functional areas.

II-B-12 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 - We no longer employ the coach who purchased clothing using Activity Fund monies. Coaches have been notified that purchasing coaches clothing out of the Activity Fund is not allowed, we cannot/will not pay for it, and they must go through the Booster Club if they wish to provide clothing to their coaches.

Conclusion - Response accepted.

II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted; however, we noted that there were instances of reimbursements made to employees for meals while traveling which lacked a detailed receipt. According to board policy #401.16, employees and officers using a credit card must submit a detailed receipt in addition to a credit card receipt when requesting reimbursement.

Recommendation - The District should review procedures in place with personnel using the district credit cards to ensure the proper detailed documentation will be available with paid credit card statements.

Response - Employees have been notified that a detailed receipt must accompany each purchase of the school credit card.

Conclusion - Response accepted.

II-D-12 Business Transactions - Business transactions between the District and District officials or employees are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Boyd DeYoung, Tech Coordinator Owns Cultured Images	Supplies	\$ 480
Steve Audus, Board Member Owns Audus Sanitation	Sanitation services per bid	\$ 5,228

In accordance with Chapter 279.7A of the Code of Iowa, the above transactions with the board member does not appear to represent a conflict of interest.

In accordance with the Attorney General’s Opinion dated July 2, 1990 the above transactions with District employee does not appear to represent a conflict of interest.

II-E-12 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-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-12 Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-12 Deposits and Investments - 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 were noted.

II-J-12 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-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-12 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, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District’s CAR:

Beginning Balance		\$	391,886
Revenues:			
Statewide sales and services tax revenue			415,748
Other local revenues			155
Reorganization settlement			116,678
Total Revenues			<u>532,581</u>
Expenditures:			
School Infrastructure Construction	109,478		
Equipment	153,900		
Reorganization settlement	111,120		
			<u>374,498</u>
Ending Balance		\$	<u>549,969</u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-12 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students.

**Target Donations and Lifetouch Commissions:** We noted Target donations and Lifetouch commissions recorded in the High School Activities account within the Student Activity Fund.

Recommendation - Commissions are not identified as allowable in any fund and therefore the most appropriate fund to receipt Lifetouch picture commissions would be the General Fund. In the future, Lifetouch picture commissions should be receipted to the General Fund.

Response - Lifetouch and Target donations are now receipted in the General Fund.

Conclusion - Response accepted.

**Scholarships:** We noted that the District paid scholarships out of the Math Club account within the Student Activity Fund.

Recommendation - Scholarships are most appropriately paid from the Private Purpose Trust Fund; therefore, proceeds and subsequent expenditures for giving scholarships to students should be placed in the Private Purpose Trust Fund.

Response - Proceeds for scholarships will be placed in the Private Purpose Trust Fund and paid from the fund. No scholarships will be paid out of the Student Activity Fund.

Conclusion - Response accepted.

II-N-12 Financial Condition - At June 30, 2012, the Capital Projects: Capital Projects Construction Fund had a deficit unassigned fund balance of \$108,475.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit balance.

Response - District incurred expenses prior to receiving general obligation bond money in FY13.

Conclusion - Response accepted.