

MONTICELLO COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2012

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Monticello Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2011 Election)</b>		
John Cook	President	2011
Jeff Hinrichs	Vice President	2013
Angie Beitz	Board Member	2013
Chris Brokaw	Board Member	2011
Peg Mere	Board Member	2013
<b>(After September 2011 Election)</b>		
Jeff Hinrichs	President	2013
Chris Brokaw	Vice President	2015
Angie Beitz	Board Member	2013
Peg Mere	Board Member	2013
Kevin Gray	Board Member	2015
<b>School Officials</b>		
Chris Anderson	Superintendent	2012
Judy Hayen	District Secretary	2012
Connie Reyner	Comptroller	2012
Gruhn Law Firm	Attorney	2012
Lynch Dallas, P.C.	Attorney	2012

MONTICELLO 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  
Monticello 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 Monticello Community School District, Monticello, 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 Monticello 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 March 12, 2013 on our consideration of Monticello 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 16 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 Monticello Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 10, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2013

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

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Monticello 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 increased from \$9,812,533 in fiscal year 2011 to \$10,538,384 in fiscal year 2012 and General Fund expenditures increased from \$10,598,580 in fiscal 2011 to \$10,758,159 in fiscal 2012. This resulted in a decrease in the District's General Fund balance from \$620,318 in fiscal 2011 to \$400,543 in fiscal 2012, a 35.43% decrease from prior year.
- The General Fund increase in revenues was mainly due to the increases in state source revenues during the year. The increase in expenditures was due to the increases in the instruction functional area expenditures when compared to the prior year.

### **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 Monticello 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 Monticello 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 Monticello 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

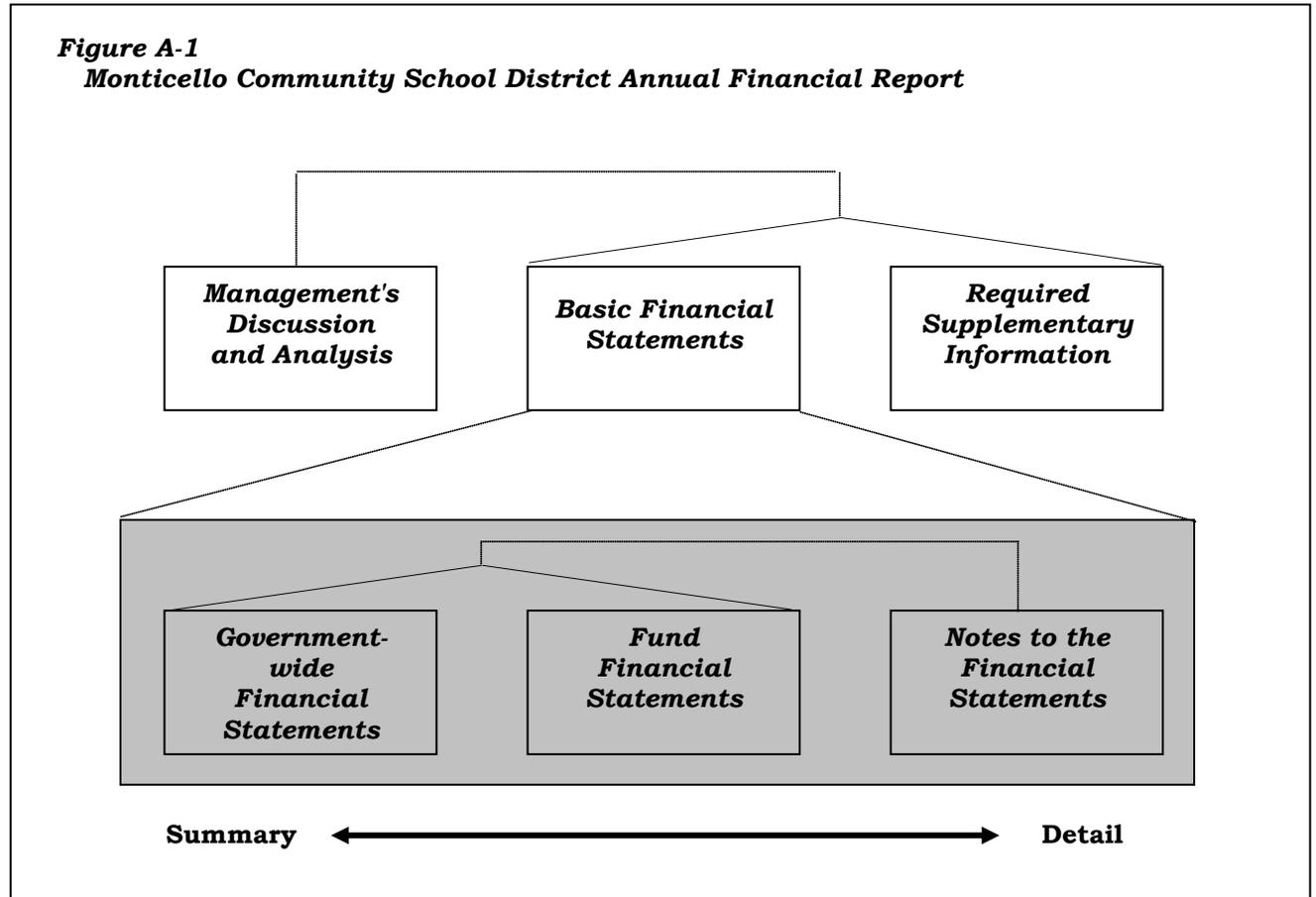


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<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 net assets</li> <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 four Enterprise Funds, the School Nutrition Fund, the Daycare Fund, the School Accounts Fund and the Preschool Fund.

The required financial statements for the proprietary funds include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets and a Statement of Cash Flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency fund.

- 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 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 District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 7,698,491	7,460,186	264,951	211,463	7,963,442	7,671,649	3.80%
Capital assets	7,949,239	7,925,013	58,956	48,754	8,008,195	7,973,767	0.43%
Total assets	<u>15,647,730</u>	<u>15,385,199</u>	<u>323,907</u>	<u>260,217</u>	<u>15,971,637</u>	<u>15,645,416</u>	<u>2.09%</u>
Long-term obligations	2,915,471	3,509,312	3,031	1,943	2,918,502	3,511,255	-16.88%
Other liabilities	5,087,436	4,933,430	29,349	13,435	5,116,785	4,946,865	3.43%
Total liabilities	<u>8,002,907</u>	<u>8,442,742</u>	<u>32,380</u>	<u>15,378</u>	<u>8,035,287</u>	<u>8,458,120</u>	<u>-5.00%</u>
Net assets:							
Invested in capital assets, net of related debt	5,329,239	4,705,013	58,956	48,754	5,388,195	4,753,767	13.35%
Restricted	2,218,093	1,903,118	-	-	2,218,093	1,903,118	16.55%
Unrestricted	97,491	334,326	232,571	196,085	330,062	530,411	-37.77%
Total net assets	<u>\$ 7,644,823</u>	<u>6,942,457</u>	<u>291,527</u>	<u>244,839</u>	<u>7,936,350</u>	<u>7,187,296</u>	<u>10.42%</u>

The District's combined net assets increased by \$749,054, or 10.42%, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, intangibles, 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 by \$314,975, or 16.55% from the prior year. The increase in restricted net assets was

due in part to the increase in the Management Levy Fund balance as compared to the previous year and the increase in fund balances of the Capital Projects Accounts.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements-decreased by \$200,349, or 37.77%, from the prior year. The decrease in General Fund unassigned balance is the main factor for the decrease in unrestricted net assets.

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

Figure A-4								
Changes of Net Assets								
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2012	2011	2012	2011	2012	2011	2011-12	
Revenues:								
Program revenues:								
Charges for services	\$ 1,243,852	1,098,111	426,593	369,044	1,670,445	1,467,155	13.86%	
Operating grants, contributions and restricted interest	1,087,055	1,180,787	223,650	202,962	1,310,705	1,383,749	-5.28%	
Capital grants, contributions and restricted interest	4,867	22,740	-	-	4,867	22,740	-78.60%	
General revenues:								
Property tax	3,682,319	3,361,533	-	-	3,682,319	3,361,533	9.54%	
Income surtax	249,825	250,787	-	-	249,825	250,787	-0.38%	
Statewide sales, services and use tax	761,501	676,851	-	-	761,501	676,851	12.51%	
Unrestricted state grants	4,978,436	4,366,462	-	-	4,978,436	4,366,462	14.02%	
Nonspecific program federal grants	199,979	107,135	-	-	199,979	107,135	86.66%	
Unrestricted investment earnings	77,651	129,269	1,567	1,592	79,218	130,861	-39.46%	
Other	67,374	243,086	2,208	4,097	69,582	247,183	-71.85%	
Total revenues	<u>12,352,859</u>	<u>11,436,761</u>	<u>654,018</u>	<u>577,695</u>	<u>13,006,877</u>	<u>12,014,456</u>	<u>8.26%</u>	
Program expenses:								
Governmental activities:								
Instructional	7,218,324	6,952,488	115	-	7,218,439	6,952,488	3.83%	
Support services	3,062,461	3,466,459	11,169	8,023	3,073,630	3,474,482	-11.54%	
Non-instructional programs	-	610	596,046	510,872	596,046	511,482	16.53%	
Other expenses	1,369,708	799,887	-	-	1,369,708	799,887	71.24%	
Total expenses	<u>11,650,493</u>	<u>11,219,444</u>	<u>607,330</u>	<u>518,895</u>	<u>12,257,823</u>	<u>11,738,339</u>	<u>4.43%</u>	
Change in net assets	702,366	217,317	46,688	58,800	749,054	276,117	171.28%	
Net assets beginning of year	<u>6,942,457</u>	<u>6,725,140</u>	<u>244,839</u>	<u>186,039</u>	<u>7,187,296</u>	<u>6,911,179</u>	<u>4.00%</u>	
Net assets end of year	<u>\$ 7,644,823</u>	<u>6,942,457</u>	<u>291,527</u>	<u>244,839</u>	<u>7,936,350</u>	<u>7,187,296</u>	<u>10.42%</u>	

Property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 78.30% of the revenue from governmental activities while charges for service and sales and operating grants, contributions and restricted interest account for 99.42% of the revenue from business type activities.

The District's total revenues were approximately \$13.01 million of which approximately \$12.35 million was for governmental activities and approximately \$0.66 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8.26% increase in revenues and a 4.43% increase in expenses. Unrestricted state grants increased \$611,974 and property tax increased approximately \$320,786 to fund the increase in expenses. The increases in expenses related to increases in the instructional functional area during the year.

### Governmental Activities

Revenues for governmental activities were \$12,352,859 and expenses were \$11,650,493.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instruction and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 7,218,324	6,952,488	3.82%	5,327,242	5,199,986	2.45%
Support services	3,062,461	3,466,459	-11.65%	2,998,770	3,322,339	-9.74%
Non-instruction	-	610	-100.00%	-	610	-100.00%
Other expenses	1,369,708	799,887	71.24%	988,707	394,871	150.39%
Totals	\$ 11,650,493	11,219,444	3.84%	9,314,719	8,917,806	4.45%

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$1,243,852.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,091,922.
- The net cost of governmental activities was financed with \$3,682,319 in property tax, \$249,825 in income surtax, \$761,501 in statewide sales, services and use tax, \$4,978,436 in unrestricted state grants, \$199,979 in nonspecific program federal grants, \$77,651 in interest income and \$69,374 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$654,018 and expenses were \$607,330. The District's business type activities include the School Nutrition Fund, the Daycare Fund, the Preschool Fund and School Accounts Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, donations and investment income.

### INDIVIDUAL FUND ANALYSIS

As previously noted, the Monticello 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 \$2,384,601, above last year's ending fund balances of \$2,305,360. The main reason for the increase in overall fund balance can be attributed to the increase in fund balance of the Capital Projects Fund accounts.

## **Governmental Fund Highlights**

- The District's declining General Fund financial position is the product of many factors. The District's expenditures outpaced revenues during the year, thus ensuring the decline in fund balance.
- The Capital Projects Fund balance increased from \$1,374,458 in fiscal 2011 to \$1,557,849 in fiscal 2012. The increase was due in part to a reduction in capital outlay expenditures when compared with the prior year.

## **Proprietary Funds Highlights**

The School Nutrition Fund net assets increased from \$125,226 at June 30, 2011 to \$137,173 at June 30, 2012, representing an increase of 9.54%.

The newly established Daycare Fund ended the year with deficit net assets of \$913.

The Preschool Fund net assets increased from \$109,543 to \$144,786, representing an increase of 32.17%.

The School Accounts Fund net assets increased from \$10,070 to \$10,499, representing an increase of 4.26%.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Monticello Community School District amended its budget one time to reclassify expenditures from support services to the instruction functional area.

The District's revenues were \$72,771 less than budgeted revenues, a variance of 0.56%. The most significant variance resulted from the District receiving less in state source revenues 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 \$8,008,195, 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 4 to the financial statements. Depreciation expense for the year was \$1,011,729.

The original cost of the District's capital assets was \$15,351,087. Governmental funds account for \$15,087,064 with the remainder of \$264,023 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 totaled \$647,626 at June 30, 2011 compared to \$420,085 at June 30, 2012.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 200,900	149,802	-	-	200,900	149,802	34.11%
Buildings	6,486,436	6,258,111	-	-	6,486,436	6,258,111	3.65%
Land improvements	420,085	647,626	-	-	420,085	647,626	-35.13%
Machinery and equipment	841,818	869,474	58,956	48,754	900,774	918,228	-1.90%
Total	<u>\$ 7,949,239</u>	<u>7,925,013</u>	<u>58,956</u>	<u>48,754</u>	<u>8,008,195</u>	<u>7,973,767</u>	<u>0.43%</u>

### Long-Term Debt

At June 30, 2012, the District had \$2,918,502 in long-term debt outstanding. This represents a decrease of 16.88% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$2,620,000 at June 30, 2012. These bonds will continue to be paid until 2016.

The District had outstanding early retirement payable from the Management Fund of \$104,081 at June 30, 2012.

The District had outstanding compensated absences payable from the General Fund of \$27,739 as of June 30, 2012.

The District had a net OPEB liability of \$166,682 as of June 30, 2012.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General obligation bonds	\$ 2,620,000	3,220,000	-	-	2,620,000	3,220,000	-18.63%
Early retirement	104,081	156,121	-	-	104,081	156,121	-33.33%
Compensated absences	27,739	28,247	-	-	27,739	28,247	-1.80%
Net OPEB liability	163,651	104,944	3,031	1,943	166,682	106,887	55.94%
Total	<u>\$ 2,915,471</u>	<u>3,509,312</u>	<u>3,031</u>	<u>1,943</u>	<u>2,918,502</u>	<u>3,511,255</u>	<u>-16.88%</u>

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

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

- 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.

- Low allowable growth over several years and enrollment fluctuations is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten -year period, which began in fiscal year 2005.
- On July 1, 2012, the IPERS employer contribution increase to 8.67% will increase the Monticello Community School District's employer benefit costs during fiscal 2013. An additional increase to 8.93% is anticipated for fiscal 2014.

## **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 Connie Reyner, District Comptroller, Monticello Community School District, 711 South Maple Street, Monticello, Iowa, 52310.

BASIC FINANCIAL STATEMENTS

MONTICELLO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
YEAR ENDED JUNE 30, 2012

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 2,784,220	256,714	3,040,934
Receivables:			
Property tax:			
Delinquent	38,325	-	38,325
Succeeding year	3,969,363	-	3,969,363
Income surtax	242,679	-	242,679
Accounts	30,089	589	30,678
Due from other governments	633,815	-	633,815
Inventories	-	7,648	7,648
Capital assets, net of accumulated depreciation	7,949,239	58,956	8,008,195
<b>Total assets</b>	<b>15,647,730</b>	<b>323,907</b>	<b>15,971,637</b>
<b>Liabilities</b>			
Accounts payable	326,763	8,544	335,307
Salaries and benefits payable	770,198	12,666	782,864
Interest payable	16,225	-	16,225
Deferred revenue:			
Succeeding year property tax	3,969,363	-	3,969,363
Other	4,887	-	4,887
Unearned revenue	-	8,139	8,139
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	620,000	-	620,000
Early retirement	52,040	-	52,040
Compensated absences	27,739	-	27,739
Portion due after one year:			
General obligation bonds	2,000,000	-	2,000,000
Early retirement	52,041	-	52,041
Net OPEB liability	163,651	3,031	166,682
<b>Total liabilities</b>	<b>8,002,907</b>	<b>32,380</b>	<b>8,035,287</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	5,329,239	58,956	5,388,195
Restricted for:			
Categorical funding	330,472	-	330,472
Debt service	78,038	-	78,038
Management levy purposes	110,990	-	110,990
Student activities	140,744	-	140,744
School infrastructure	1,050,540	-	1,050,540
Physical plant and equipment	507,309	-	507,309
Unrestricted	97,491	232,571	330,062
<b>Total net assets</b>	<b>\$ 7,644,823</b>	<b>291,527</b>	<b>7,936,350</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 4,267,049	538,327	60,338	-	(3,668,384)	-	(3,668,384)
Special	1,623,649	388,970	145,590	-	(1,089,089)	-	(1,089,089)
Other	1,327,626	286,740	471,117	-	(569,769)	-	(569,769)
	<u>7,218,324</u>	<u>1,214,037</u>	<u>677,045</u>	<u>-</u>	<u>(5,327,242)</u>	<u>-</u>	<u>(5,327,242)</u>
Support services:							
Student	414,764	-	344	-	(414,420)	-	(414,420)
Instructional	507,798	-	-	-	(507,798)	-	(507,798)
Administration	961,562	-	-	-	(961,562)	-	(961,562)
Operation and maintenance of plant	776,389	-	-	4,867	(771,522)	-	(771,522)
Transportation	401,948	29,815	28,665	-	(343,468)	-	(343,468)
	<u>3,062,461</u>	<u>29,815</u>	<u>29,009</u>	<u>4,867</u>	<u>(2,998,770)</u>	<u>-</u>	<u>(2,998,770)</u>
Long-term debt interest	116,648	-	-	-	(116,648)	-	(116,648)
Other expenditures:							
AEA flowthrough	381,001	-	381,001	-	-	-	-
Depreciation(unallocated)*	872,059	-	-	-	(872,059)	-	(872,059)
	<u>1,253,060</u>	<u>-</u>	<u>381,001</u>	<u>-</u>	<u>(872,059)</u>	<u>-</u>	<u>(872,059)</u>
Total governmental activities	11,650,493	1,243,852	1,087,055	4,867	(9,314,719)	-	(9,314,719)
Business type activities:							
Instruction:							
Other	115	-	-	-	-	(115)	(115)
Support services:							
Administration	7,000	-	-	-	-	(7,000)	(7,000)
Operation and maintenance of plant	4,169	-	-	-	-	(4,169)	(4,169)
	<u>11,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,169)</u>	<u>(11,169)</u>
Non-instructional programs:							
Food service operations	531,699	328,738	223,650	-	-	20,689	20,689
Other enterprise operations	388	-	-	-	-	(388)	(388)
Community service operations	63,959	97,855	-	-	-	33,896	33,896
	<u>596,046</u>	<u>426,593</u>	<u>223,650</u>	<u>-</u>	<u>-</u>	<u>54,197</u>	<u>54,197</u>
Total business type activities	607,330	426,593	223,650	-	-	42,913	42,913
Total	\$ 12,257,823	1,670,445	1,310,705	4,867	(9,314,719)	42,913	(9,271,806)
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 3,359,616	-	3,359,616
Debt service					23,823	-	23,823
Capital outlay					298,880	-	298,880
Income surtax					249,825	-	249,825
Statewide sales, services and use tax					761,501	-	761,501
Unrestricted state grants					4,978,436	-	4,978,436
Nonspecific program federal grants					199,979	-	199,979
Unrestricted investment earnings					77,651	1,567	79,218
Other					67,374	2,208	69,582
Total general revenues					<u>10,017,085</u>	<u>3,775</u>	<u>10,020,860</u>
Change in net assets					702,366	46,688	749,054
Net assets beginning of year					6,942,457	244,839	7,187,296
Net assets end of year					<u>\$ 7,644,823</u>	<u>291,527</u>	<u>7,936,350</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Capital			Total
	General	Projects	Nonmajor	
<b>Assets</b>				
Cash and pooled investments	\$ 1,005,120	1,348,503	430,597	2,784,220
Receivables:				
Property tax:				
Delinquent	31,957	3,266	3,102	38,325
Succeeding year	3,422,696	310,667	236,000	3,969,363
Income surtax	242,679	-	-	242,679
Accounts	30,089	-	-	30,089
Due from other governments	411,182	222,633	-	633,815
<b>Total assets</b>	<b>\$ 5,143,723</b>	<b>1,885,069</b>	<b>669,699</b>	<b>7,698,491</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 302,720	16,553	7,490	326,763
Salaries and benefits payable	770,198	-	-	770,198
Deferred revenue:				
Succeeding year property tax	3,422,696	310,667	236,000	3,969,363
Income surtax	242,679	-	-	242,679
Other	4,887	-	-	4,887
<b>Total liabilities</b>	<b>4,743,180</b>	<b>327,220</b>	<b>243,490</b>	<b>5,313,890</b>
Fund balances:				
Restricted for:				
Categorical funding	330,472	-	-	330,472
Debt service	-	-	78,038	78,038
Management levy purposes	-	-	215,071	215,071
Student activities	-	-	140,744	140,744
School infrastructure	-	1,050,540	-	1,050,540
Physical plant and equipment	-	507,309	-	507,309
Unassigned:				
General	70,071	-	-	70,071
Student activities	-	-	(7,644)	(7,644)
<b>Total fund balances</b>	<b>400,543</b>	<b>1,557,849</b>	<b>426,209</b>	<b>2,384,601</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,143,723</b>	<b>1,885,069</b>	<b>669,699</b>	<b>7,698,491</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds(page 20)</b>	\$ 2,384,601
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,949,239
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(16,225)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	242,679
Long-term liabilities, including bonds payable, early retirement payable, compensated absence payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,915,471)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 7,644,823</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Capital			Total
	General	Projects	Nonmajor	
Revenues:				
Local sources:				
Local tax	\$ 3,328,420	1,060,381	303,336	4,692,137
Tuition	854,711	-	-	854,711
Other	198,350	53,455	402,349	654,154
Intermediate sources	7,600	-	-	7,600
State sources	5,619,214	179	173	5,619,566
Federal sources	523,183	-	-	523,183
Total revenues	<u>10,531,478</u>	<u>1,114,015</u>	<u>705,858</u>	<u>12,351,351</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,202,525	-	150,369	4,352,894
Special	1,710,317	-	-	1,710,317
Other	1,052,546	-	367,961	1,420,507
	<u>6,965,388</u>	<u>-</u>	<u>518,330</u>	<u>7,483,718</u>
Support services:				
Student	510,134	-	-	510,134
Instructional staff	586,231	-	-	586,231
Administration	1,053,917	-	34	1,053,951
Operation and maintenance of plant	815,638	-	47,701	863,339
Transportation	445,850	101,346	-	547,196
	<u>3,411,770</u>	<u>101,346</u>	<u>47,735</u>	<u>3,560,851</u>
Capital outlay	-	133,248	-	133,248
Long-term debt:				
Principal	-	-	600,000	600,000
Interest and fiscal charges	-	-	120,198	120,198
	<u>-</u>	<u>-</u>	<u>720,198</u>	<u>720,198</u>
Other expenditures:				
AEA flowthrough	381,001	-	-	381,001
Total expenditures	<u>10,758,159</u>	<u>234,594</u>	<u>1,286,263</u>	<u>12,279,016</u>
Excess(deficiency) of revenues over(under)expenditures	(226,681)	879,421	(580,405)	72,335
Other financing sources(uses):				
Operating transfer in	-	-	696,030	696,030
Operating transfer out	-	(696,030)	-	(696,030)
Sale of equipment	6,906	-	-	6,906
Total other financing sources(uses)	<u>6,906</u>	<u>(696,030)</u>	<u>696,030</u>	<u>6,906</u>
Net change in fund balances	(219,775)	183,391	115,625	79,241
Fund balances beginning of year	<u>620,318</u>	<u>1,374,458</u>	<u>310,584</u>	<u>2,305,360</u>
Fund balances end of year	<u>\$ 400,543</u>	<u>1,557,849</u>	<u>426,209</u>	<u>2,384,601</u>

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO 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) \$ 79,241

*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 not reported in the Statement of Activities and are allocated over their useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures, depreciation expense and loss on disposal for the current year are as follows:

Capital expenditures	\$ 1,253,533	
Depreciation expense	(1,001,766)	
Loss on asset disposal	<u>(227,541)</u>	24,226

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 600,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,550

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 1,508

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	\$ 508	
Early retirement	52,040	
Other postemployment benefits	<u>(58,707)</u>	<u>(6,159)</u>

Changes in net assets of governmental activities(page 19) \$ 702,366

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

	School			School	Total
	Nutrition	Daycare	Preschool	Accounts	
<b>Assets</b>					
Cash and pooled investments	\$ 94,667	6,748	144,800	10,499	256,714
Accounts receivable	589	-	-	-	589
Inventories	7,648	-	-	-	7,648
Capital assets, net of accumulated depreciation	58,956	-	-	-	58,956
<b>Total assets</b>	<b>161,860</b>	<b>6,748</b>	<b>144,800</b>	<b>10,499</b>	<b>323,907</b>
<b>Liabilities</b>					
Accounts payable	7,367	1,163	14	-	8,544
Salaries and benefits payable	6,150	6,516	-	-	12,666
Unearned revenues	8,139	-	-	-	8,139
Net OPEB liability	3,031	-	-	-	3,031
<b>Total liabilities</b>	<b>24,687</b>	<b>7,679</b>	<b>14</b>	<b>-</b>	<b>32,380</b>
<b>Net Assets</b>					
Invested in capital assets	58,956	-	-	-	58,956
Unrestricted	78,217	(931)	144,786	10,499	232,571
<b>Total net assets</b>	<b>\$ 137,173</b>	<b>(931)</b>	<b>144,786</b>	<b>10,499</b>	<b>291,527</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Daycare	Preschool	School Accounts	Total
Operating revenue:					
Local sources:					
Charges for services	\$ 302,803	47,266	50,589	-	400,658
Shared contracts	25,935	-	-	-	25,935
Miscellaneous	860	531	-	817	2,208
Total operating revenue	329,598	47,797	50,589	817	428,801
Operating expenses:					
Instruction:					
Other:					
Other	-	-	115	-	115
Support services:					
Administration:					
Services	7,000	-	-	-	7,000
Operation and maintenance of plant:					
Services	4,169	-	-	-	4,169
	11,169	-	-	-	11,169
Non-instructional programs:					
Food service operations:					
Salaries	203,640	-	-	-	203,640
Benefits	50,914	-	-	-	50,914
Services	972	-	-	-	972
Supplies	265,550	-	-	-	265,550
Depreciation	9,963	-	-	-	9,963
Other	660	-	-	-	660
	531,699	-	-	-	531,699
Other enterprise operations:					
Supplies	-	-	-	388	388
Community service operations:					
Salaries	-	35,321	255	-	35,576
Benefits	-	5,311	103	-	5,414
Services	-	4,500	-	-	4,500
Supplies	-	3,596	14,873	-	18,469
	-	48,728	15,231	-	63,959
Total operating expenses	542,868	48,728	15,346	388	607,330
Operating income(loss)	(213,270)	(931)	35,243	429	(178,529)
Non-operating revenues:					
State sources	4,716	-	-	-	4,716
Federal sources	218,934	-	-	-	218,934
Interest income	1,567	-	-	-	1,567
Total non-operating revenues	225,217	-	-	-	225,217
Changes in net assets	11,947	(931)	35,243	429	46,688
Net assets beginning of year	125,226	-	109,543	10,070	244,839
Net assets end of year	\$ 137,173	(931)	144,786	10,499	291,527

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition	Daycare	Preschool	School Accounts	Total
Cash flows from operating activities:					
Cash received from sale of lunches and breakfasts	\$ 302,957	-	-	-	302,957
Cash received from other fees	-	47,266	50,589	-	97,855
Cash received from miscellaneous operating activities	26,795	531	-	817	28,143
Cash payments to employees for services	(251,958)	(40,632)	(358)	-	(292,948)
Cash payments to suppliers for goods or services	(249,691)	(417)	(14,974)	(388)	(265,470)
Net cash provided by(used in) operating activities	(171,897)	6,748	35,257	429	(129,463)
Cash flows from non-capital financing activities:					
State grants received	4,716	-	-	-	4,716
Federal grants received	197,109	-	-	-	197,109
Net cash provided by non-capital financing activities	201,825	-	-	-	201,825
Cash flows from capital and related financing activities:					
Purchase of capital assets	(20,165)	-	-	-	(20,165)
Cash flows from investing activities:					
Interest on investments	1,567	-	-	-	1,567
Net increase in cash and cash equivalents	11,330	6,748	35,257	429	53,764
Cash and cash equivalents at beginning of year	83,337	-	109,543	10,070	202,950
Cash and cash equivalents at end of year	\$ 94,667	6,748	144,800	10,499	256,714
<b>Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:</b>					
Operating income(loss)	\$ (213,270)	(931)	35,243	429	(178,529)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:					
Commodities consumed	21,825	-	-	-	21,825
Depreciation	9,963	-	-	-	9,963
Increase in inventories	(34)	-	-	-	(34)
Decrease in accounts receivable	310	-	-	-	310
Increase in accounts payable	6,869	7,679	14	-	14,562
Increase in salaries and benefits payable	1,508	-	-	-	1,508
Decrease in unearned revenue	(156)	-	-	-	(156)
Increase in other postemployment benefits	1,088	-	-	-	1,088
Net cash provided by(used in) operating activities	\$ (171,897)	6,748	35,257	429	(129,463)

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2012, the District received \$21,825 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2012

	Private Purpose Trust	
	Scholarship Fund	Agency
<b>Assets</b>		
Cash and pooled investments	\$ 18,755	8,853
<b>Liabilities</b>		
Due to other groups	-	8,853
<b>Net Assets</b>		
Restricted for scholarships	\$ 18,755	-

SEE NOTES TO FINANCIAL STATEMENTS.

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

		Private Purpose Trust	Scholarship Fund
Additions:			
Local sources:			
Interest	\$	422	
Contributions		5,066	
Total additions		5,488	
Deductions:			
Instruction:			
Regular:			
Scholarships awarded		3,983	
Total deductions		3,983	
Change in net assets		1,505	
Net assets beginning of year		17,250	
Net assets end of year	\$	18,755	

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

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

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

**A. Reporting Entity**

For financial reporting purposes, Monticello 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 Monticello 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 do 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 Linn, Jones, Delaware and Dubuque County Assessors' 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 Project Fund accounts.

The District reports the following major governmental funds:

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

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

The District reports the following nonmajor proprietary funds:

The District's proprietary funds are the School Nutrition Fund, Daycare Fund, Preschool Fund and School Accounts Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Daycare Fund is used to account for child care services. The Preschool

Fund is used to account for the preschool services provided by the District. The School Accounts Fund is used to account for District miscellaneous proprietary accounts.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds are as follows:

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 operations.

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.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more years
Machinery and equipment	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 Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General 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 constraints placed 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 the preceding classification.

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 in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$606 pursuant to the Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Schools Joint Investment Trust was rated AAA by Standard & Poor's Financial Services.

(3) **Transfers**

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 696,030

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for principal and interest payments on the District's general obligation bond indebtedness.

(4) **Capital Assets**

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 149,802	51,098	-	200,900
Capital assets being depreciated:				
Buildings	9,872,304	1,100,384	-	10,972,688
Land improvements	2,288,978	-	994,030	1,294,948
Machinery and equipment	2,579,561	102,051	63,084	2,618,528
Total capital assets being depreciated	14,740,843	1,202,435	1,057,114	14,886,164
Less accumulated depreciation for:				
Buildings	3,614,193	872,059	-	4,486,252
Land improvements	1,641,352	-	766,489	874,863
Machinery and equipment	1,710,087	129,707	63,084	1,776,710
Total accumulated depreciation	6,965,632	1,001,766	829,573	7,137,825
Total capital assets being depreciated, net	7,775,211	200,669	227,541	7,748,339
Governmental activities capital assets, net	\$ 7,925,013	251,767	227,541	7,949,239
<b>Business type activities:</b>				
Machinery and equipment	\$ 243,858	20,165	-	264,023
Less accumulated depreciation	195,104	9,963	-	205,067
Business type activities capital assets, net	\$ 48,754	10,202	-	58,956

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 32,193
Special	5,422
Other	5,188
Support services:	
Student	3,243
Instructional staff	18,496
Administration	1,621
Operation and maintenance of plant	7,017
Transportation	56,527
	<u>129,707</u>
Unallocated depreciation	<u>872,059</u>
Total governmental activities depreciation expense	<u>\$ 1,001,766</u>
Business type activities:	
Food service operations	<u>\$ 9,963</u>

(5) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 3,220,000	-	600,000	2,620,000	620,000
Early retirement	156,121	-	52,040	104,081	52,040
Compensated absences	28,247	27,739	28,247	27,739	27,739
Net OPEB liability	104,944	58,707	-	163,651	-
Total	\$ 3,509,312	86,446	680,287	2,915,471	699,779
<b>Business type activities:</b>					
Net OPEB liability	\$ 1,943	1,088	-	3,031	-

Early Retirement

The District offered an early retirement plan to full-time certified staff employees for the time period of February 5, 2010 to March 22, 2010. Requirements of that plan are explained in the following paragraph:

Eligible employees had to be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees completed an application which was subjected to approval by the Board of Education. The early retirement incentive for each eligible employee was the amount of unused sick leave times the employee's per diem contract rate for teaching only. The maximum benefit for full-time staff was 21.875% of the employee's 2010 salary paid in four equal installments over a four year period. During the year ended June 30, 2012 the District paid \$52,040 in benefits.

General Obligation Bonds Payable

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond issue November 1, 2005		
		Principal	Interest	Total
2013	3.60	% \$ 620,000	97,348	717,348
2014	3.70	640,000	75,028	715,028
2015	3.75	665,000	51,348	716,348
2016	3.80	695,000	26,410	721,410
Total		\$ 2,620,000	250,134	2,870,134

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 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 \$516,249, \$418,723 and \$395,638, respectively, equal to the required contributions for each year.

**(7) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: health and long-term disability. District contributions to ISEBA for the year ended June 30, 2012 were \$1,120,979.

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

**(8) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 110 active and 6 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 and ISEBA. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding 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 25 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	\$ 68,691
Interest on net OPEB obligation	2,677
Adjustment to annual required contribution	(5,486)
Annual OPEB cost	<u>65,882</u>
Contributions made	<u>(6,087)</u>
Increase in net OPEB obligation	59,795
Net OPEB obligation beginning of year	106,887
Net OPEB obligation end of year	<u><u>\$ 166,682</u></u>

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

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	\$ 60,081	12.34%	\$ 52,669
2011	61,098	11.26%	106,887
2012	65,882	9.24%	166,682

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$493,381, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$493,381. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.299 million and the ratio of the UAAL to covered payroll was 9.30%.

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

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

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

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the Monticello Community School District.

**(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 \$381,001 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Categorical Funding**

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

Program	Amount
Limited English Proficient	\$ 1,553
At-Risk Programs	25,220
Returning Dropouts and Dropout Prevention Programs	13,799
Four-year-old Preschool State Aid	49,650
Teacher Salary Supplement	51,820
Iowa Early Intervention Block Grant	133,275
Professional Development for Model Core Curriculum	16,356
Professional Development	38,799
Total	<u>\$ 330,472</u>

**(11) Deficit Unassigned Fund Balance/Unrestricted Net Assets**

The District had deficit unrestricted net assets in the Daycare Fund as June 30, 2012 of \$931. At June 30, 2012, the Special Revenue: Student Activity Fund had one account with a deficit unassigned fund balance of \$7,644.

REQUIRED SUPPLEMENTARY INFORMATION

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE 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	Budgeted Amounts		Final to
	Fund Types	Fund Types		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 6,201,002	430,368	6,631,370	6,497,467	6,497,467	133,903
Intermediate sources	7,600	-	7,600	2,000	2,000	5,600
State sources	5,619,566	4,716	5,624,282	6,000,933	6,000,933	(376,651)
Federal sources	523,183	218,934	742,117	577,740	577,740	164,377
Total revenues	12,351,351	654,018	13,005,369	13,078,140	13,078,140	(72,771)
<b>Expenditures/Expenses:</b>						
Instruction	7,483,718	115	7,483,833	7,614,717	8,000,000	516,167
Support services	3,560,851	11,169	3,572,020	4,148,512	3,763,229	191,209
Non-instructional programs	-	596,046	596,046	752,224	752,224	156,178
Other expenditures	1,234,447	-	1,234,447	1,686,472	1,686,472	452,025
Total expenditures/expenses	12,279,016	607,330	12,886,346	14,201,925	14,201,925	1,315,579
Excess(Deficiency) of revenues over(under) expenditures/expenses	72,335	46,688	119,023	(1,123,785)	(1,123,785)	1,242,808
Other financing sources, net	6,906	-	6,906	-	-	6,906
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	79,241	46,688	125,929	(1,123,785)	(1,123,785)	1,249,714
Balances beginning of year	2,305,360	244,839	2,550,199	2,337,391	2,337,391	212,808
Balances end of year	\$ 2,384,601	291,527	2,676,128	1,213,606	1,213,606	1,462,522

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund 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. During the year ended June 30, 2012, the District adopted one budget amendment, reclassifying \$385,283 of expenditures from the support services functional area to the instruction functional area.

MONTICELLO 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	-	\$ 528	528	0.0%	\$4,860	10.86%
2011	July 1, 2009	-	521	521	0.0%	4,541	11.47%
2012	July 1, 2009	-	493	493	0.0%	5,299	9.30%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SUPPLEMENTARY INFORMATION

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

	Special Revenue				
	Manage-	Student	Total	Debt	Total
	ment Levy	Activity		Service	Nonmajor
<b>Assets</b>					
Cash and pooled investments	\$ 212,217	140,590	352,807	77,790	430,597
Receivables:					
Property tax:					
Delinquent	2,854	-	2,854	248	3,102
Succeeding year	236,000	-	236,000	-	236,000
<b>Total assets</b>	<b>\$ 451,071</b>	<b>140,590</b>	<b>591,661</b>	<b>78,038</b>	<b>669,699</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ -	7,490	7,490	-	7,490
Deferred revenue:					
Succeeding year property tax	236,000	-	236,000	-	236,000
<b>Total liabilities</b>	<b>236,000</b>	<b>7,490</b>	<b>243,490</b>	<b>-</b>	<b>243,490</b>
Fund balances:					
Restricted for:					
Debt service	-	-	-	78,038	78,038
Management levy purposes	215,071	-	215,071	-	215,071
Student activities	-	140,744	140,744	-	140,744
Unassigned	-	(7,644)	(7,644)	-	(7,644)
<b>Total fund balances</b>	<b>215,071</b>	<b>133,100</b>	<b>348,171</b>	<b>78,038</b>	<b>426,209</b>
<b>Total liabilities and fund balances</b>	<b>\$ 451,071</b>	<b>140,590</b>	<b>591,661</b>	<b>78,038</b>	<b>669,699</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2012

	Special Revenue				
	Manage- ment Levy	Student Activity	Total	Debt Service	Total Nonmajor
Revenues:					
Local sources:					
Local tax	\$ 279,513	-	279,513	23,823	303,336
Other	13,787	388,562	402,349	-	402,349
State sources	159	-	159	14	173
Total revenues	<u>293,459</u>	<u>388,562</u>	<u>682,021</u>	<u>23,837</u>	<u>705,858</u>
Expenditures:					
Current:					
Instruction:					
Regular	150,369	-	150,369	-	150,369
Other	-	367,961	367,961	-	367,961
Support services:					
Administration	34	-	34	-	34
Operation and maintenance of plant	47,701	-	47,701	-	47,701
Long-term debt:					
Principal	-	-	-	600,000	600,000
Interest and fiscal charges	-	-	-	120,198	120,198
Total expenditures	<u>198,104</u>	<u>367,961</u>	<u>566,065</u>	<u>720,198</u>	<u>1,286,263</u>
Excess(Deficiency) of revenues over(under) expenditures	95,355	20,601	115,956	(696,361)	(580,405)
Other financing sources:					
Operating transfer in	-	-	-	696,030	696,030
Net change in fund balances	95,355	20,601	115,956	(331)	115,625
Fund balances beginning of year	<u>119,716</u>	<u>112,499</u>	<u>232,215</u>	<u>78,369</u>	<u>310,584</u>
Fund balance end of year	<u>\$ 215,071</u>	<u>133,100</u>	<u>348,171</u>	<u>78,038</u>	<u>426,209</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 827,907	520,596	1,348,503
Receivables:			
Property tax:			
Delinquent	-	3,266	3,266
Succeeding year	-	310,667	310,667
Due from other governments	222,633	-	222,633
<b>Total assets</b>	<b>\$ 1,050,540</b>	<b>834,529</b>	<b>1,885,069</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ -	16,553	16,553
Deferred revenue:			
Succeeding year property tax	-	310,667	310,667
<b>Total liabilities</b>	<b>-</b>	<b>327,220</b>	<b>327,220</b>
Fund balances:			
Restricted for:			
School infrastructure	1,050,540	-	1,050,540
Physical plant and equipment	-	507,309	507,309
<b>Total fund balances</b>	<b>1,050,540</b>	<b>507,309</b>	<b>1,557,849</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,050,540</b>	<b>834,529</b>	<b>1,885,069</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS ACCOUNTS  
 YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 761,501	298,880	1,060,381
Other	33,908	19,547	53,455
State sources	-	179	179
Total revenues	<u>795,409</u>	<u>318,606</u>	<u>1,114,015</u>
Expenditures:			
Current:			
Support services:			
Transportation	-	101,346	101,346
Capital outlay	-	133,248	133,248
Total expenditures	<u>-</u>	<u>234,594</u>	<u>234,594</u>
Excess of revenues over expenditures	795,409	84,012	879,421
Other financing uses:			
Operating transfers out	<u>(696,030)</u>	-	<u>(696,030)</u>
Net change in fund balances	99,379	84,012	183,391
Fund balances beginning of year	<u>951,161</u>	<u>423,297</u>	<u>1,374,458</u>
Fund balances end of year	<u>\$ 1,050,540</u>	<u>507,309</u>	<u>1,557,849</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO 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	Transfers	Balance End of Year
Speech and drama	\$ 14,606	12,548	8,933	-	18,221
Vocal	6,558	4,506	2,261	-	8,803
HS musical	7,542	131	76	-	7,597
Instrumental	3,690	3,682	3,298	-	4,074
Cross country	-	3,719	3,719	-	-
Boys basketball-HS	(38)	2,945	1,270	-	1,637
Boys basketball	-	4,287	4,287	-	-
Football-HS	2,047	6,335	6,071	-	2,311
Football	-	8,625	8,625	-	-
Baseball-HS	1,273	4,756	2,080	-	3,949
Baseball	-	9,033	9,033	-	-
Boys track	-	16,722	16,722	-	-
Soccer	-	4,590	4,590	-	-
Boys golf-HS	485	9	-	-	494
Boys golf	-	1,555	1,555	-	-
Wrestling-HS	1,044	8,603	4,679	-	4,968
Wrestling	-	4,038	4,038	-	-
Girls basketball-HS	(781)	3,522	2,182	-	559
Girls basketball	-	9,570	9,570	-	-
Volleyball-HS	2,533	5,138	6,212	-	1,459
Volleyball	-	7,592	7,592	-	-
Softball-HS	3,794	7,935	7,284	-	4,445
Softball	-	4,892	4,892	-	-
Girls track-HS	1,690	2,884	-	-	4,574
Girls track	-	4,368	4,368	-	-
Girls golf-HS	88	1	-	-	89
Girls golf	-	1,475	1,475	-	-
General athletics	(7,057)	33,720	26,317	-	346
Student council-HS	2,520	1,721	2,157	-	2,084
Interest	2,309	77	77	-	2,309
Student organization	32,211	109,501	113,767	-	27,945
Yearbook-HS	(9,581)	5,290	3,353	-	(7,644)
Montisports.org	41	-	-	-	41
7th grade	2,925	10,315	6,669	(2,925)	3,646
8th grade	2,220	7,609	7,676	705	2,858
Freshman	1,348	38	-	872	2,258
Sophomore	2,079	23	-	(731)	1,371
Junior	2,317	6,586	6,161	(238)	2,504
Senior	8,824	164	2,314	2,317	8,991
FFA	11,178	36,634	36,586	-	11,226
BPA	2,690	9,314	8,905	-	3,099
Coffee club	4,528	987	434	-	5,081
International club	1,551	7,980	9,512	-	19
Sixth grade	2,486	916	955	-	2,447
Cheerleader	3,067	9,802	12,442	-	427
Dance team	2,312	4,424	5,824	-	912
Total	\$ 112,499	388,562	367,961	-	133,100

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Private Purpose Trust - Scholarship Fund				
	Burrichter Scholarship	Farm Scholarship	Zubler Scholarship	MFC Scholarship	Total
<b>Assets</b>					
Cash and pooled investments	\$ 4,042	500	1,526	12,687	18,755
<b>Liabilities</b>					
	-	-	-	-	-
<b>Net Assets</b>					
Restricted for scholarships	\$ 4,042	500	1,526	12,687	18,755

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO 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				Total
	Burrichter Scholarship	Farm Scholarship	Zubler Scholarship	MFC Scholarship	
Additions:					
Local sources:					
Interest	\$ 97	-	-	325	422
Contributions	1,000	500	500	3,066	5,066
Total additions	1,097	500	500	3,391	5,488
Deductions:					
Instruction:					
Regular:					
Scholarships awarded	-	500	500	2,983	3,983
Changes in net assets	1,097	-	-	408	1,505
Net assets beginning of year	2,945	500	1,526	12,279	17,250
Net assets end of year	\$ 4,042	500	1,526	12,687	18,755

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 8,305	800	252	8,853
<b>Liabilities</b>				
Due to other groups	\$ 8,305	800	252	8,853

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO 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	\$ 4,692,137	4,232,526	4,002,767	3,929,412	3,826,081	4,174,905	4,310,031	4,372,964	4,134,270
Tuition	854,711	759,880	755,670	659,293	526,242	481,671	586,557	448,168	421,871
Other	654,154	788,697	520,340	622,440	603,091	821,359	653,247	515,437	453,113
Intermediate sources	7,600	2,000	14,234	11,500	8,486	5,000	-	9,564	11,500
State sources	5,619,566	5,008,569	4,367,090	5,032,559	4,863,323	4,492,351	4,257,420	3,916,593	3,871,736
Federal sources	523,183	588,444	812,137	399,212	296,740	265,660	384,005	258,632	466,285
Total	\$ 12,351,351	11,380,116	10,472,238	10,654,416	10,123,963	10,240,946	10,191,260	9,521,358	9,358,775
Expenditures:									
Instruction:									
Regular	\$ 4,352,894	4,113,048	3,873,850	3,672,094	3,582,227	3,217,177	3,209,124	2,928,810	2,987,594
Special	1,710,317	1,613,873	1,412,349	1,490,630	1,262,905	1,176,672	1,204,034	1,090,021	1,019,440
Other	1,420,507	1,394,734	1,198,088	1,127,497	1,127,887	1,172,626	895,569	888,058	755,989
Support services:									
Student	510,134	560,368	527,586	454,886	390,509	361,174	309,830	322,402	452,813
Instructional	586,231	734,412	527,643	498,005	311,762	174,757	332,202	240,294	250,711
Administration	1,053,951	935,772	924,900	927,515	826,027	942,843	754,436	797,328	897,437
Operation and maintenance of plant	863,339	855,532	814,809	798,079	778,701	741,601	830,135	777,994	590,786
Transportation	547,196	578,752	504,206	577,643	447,587	460,909	425,707	488,085	319,138
Non-instructional programs:									
Community service operations	-	610	-	364	648	-	-	-	-
Capital outlay	133,248	221,992	106,831	208,877	172,991	71,302	228,514	405,016	512,119
Long-term debt:									
Principal	600,000	580,000	565,000	545,000	530,000	465,000	499,470	410,000	390,000
Interest and fiscal charges	120,198	140,157	157,303	177,242	192,823	496,835	449,128	345,874	367,645
Other expenditures:									
AEA flow-through	381,001	405,016	402,724	367,852	348,272	325,674	303,507	294,542	299,347
Total	\$ 12,279,016	12,134,266	11,015,289	10,845,684	9,972,339	9,606,570	9,441,656	8,988,424	8,843,019

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2012

Grantor/Program	CFDA Number	Grant Number	Expendi- tures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY12	\$ 25,092
National School Lunch Program	10.555	FY12	193,842 *
			<u>218,934</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY12	<u>128,653</u>
Improving Teacher Quality State Grants	84.367	FY12	<u>34,066</u>
Grants for State Assessment and Related Activities	84.369	FY12	<u>6,845</u>
ARRA - State Fiscal Stabilization Fund (SFSF)			
Education State Grants	84.394	FY10	<u>783</u>
Education Jobs Fund	84.410	FY11	196,291
Education Jobs Fund	84.410	FY12	2,905
			<u>199,196</u>
Area Education Agency:			
Special Education Cluster:			
Special Education - Grants to States	84.027	FY12	<u>53,871</u>
Career and Technical Education - Basic Grants to States	84.048	FY12	<u>7,706</u>
U.S. Department of Health and Human Services:			
Iowa Department of Health and Human Services:			
Medical Assistance Program	93.938	FY11	<u>344</u>
Total			<u>\$ 650,398</u>

\* - Includes \$21,825 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

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

To the Board of Education of the  
Monticello 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 Monticello 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 March 12, 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 Monticello Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Monticello Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monticello Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Monticello Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-12 to be a significant deficiency.

### Compliance and Other Matters

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

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.

Monticello Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Monticello 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 Monticello Community School District and other parties to whom Monticello Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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



NOLTE, CORMAN & JOHNSON, P.C.

March 12, 2013

# **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 on Compliance with Requirements That Could Have  
a Direct and Material Effect on Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Monticello Community School District

## Compliance

We have audited Monticello Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Monticello Community School District's major federal programs for the year ended June 30, 2012. Monticello Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Monticello Community School District's management. Our responsibility is to express an opinion on Monticello Community School District's compliance based on our audit.

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

In our opinion, Monticello Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control Over Compliance

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

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a material weakness.

Monticello Community School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusion on the District's response, we did not audit Monticello Community School District's response and, accordingly, we express no opinion on it.

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2013

MONTICELLO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
  - CFDA Number 84.410 - Education Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Monticello Community School District did not qualify as a low-risk auditee.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

II-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. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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 will investigate available alternatives and implement when possible.

Conclusion - Response accepted.

II-B-12 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should review payroll procedures to ensure that supporting documentation is kept for all employees who received checks.

Response - The District will have the Activities Director implement procedures to track the hours worked.

Conclusion - Response accepted.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
Federal Award Year: 2012  
U.S. Department of Education  
Passed through the Iowa Department of Education

CFDA Number 84.410: Education Jobs Fund  
Federal Award Year: 2011/2012  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-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. One individual has control over data processing in general, receipt posting, investing, disbursement journalizing, payroll preparation and bank reconciling.

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 will investigate available alternatives and implement when possible.

Conclusion - Response accepted.

MONTICELLO COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2012

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-12 Certified Budget - District expenditures for the year ended June 30, 2012, did not exceed the amounts budgeted.

IV-B-12 Questionable Disbursements - We noted no expenditures that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Nick Sauser, Bus Driver Owns Nick's Service Center	Repairs	\$308
Kathy Harms, Teacher Spouse owns Subway	Food	\$198
Daniel Sauser, Teacher Father-in-law owns Welter Storage	Supplies	\$645
Diane Deppe-Haag, Teaching Associate Spouse manages Spahn & Rose Lumber	Supplies	\$27,298
Sheree Doyle, Associate Brother owns Chapman Brothers Export	Lumber	\$1,108
Connie Reyner, Comptroller Brother-in-law owns Darrell's	Supplies	\$2,146
Callie Kromminga-Smith, Teacher Mother owns Brier Rose	Supplies	\$48
Callie Kromminga-Smith, Teacher Father owns Kromminga Motors	Services	\$3,764
Steve Holmes, Coach Father owns Holmes Transmission	Services	\$422
Pat Kelly, Food Service Director Spouse owns Kelly's Country Oven	Food	\$232
Doug Ries, Teacher Prom DJ	Services	\$400
Jennifer Lambert, Teacher Spouse owns Lambert's Carpet	Supplies/Services	\$5,961
Joseph Koob, Bus Driver Son owns Koob Automotive	Supplies	\$150
Peg Mere, Board Member Brother owns Valley Road Seed, Inc.	Supplies	\$289

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the employees that own his/her own businesses do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the District's employees and Board Member do not appear to represent a conflict of interest.

IV-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.

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

IV-G-12 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students certified to the Iowa Department of Education was overstated by 1.0 student.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

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

IV-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-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.

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

IV-L-12 Statewide Sales, Services and Use Tax - No instances of non-compliance noted 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. 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		\$ 951,161
Revenues/transfers in:		
Sales tax revenues	\$ 761,501	
Other local revenues	<u>33,908</u>	<u>795,409</u>
		1,746,570
Expenditures/transfers out:		
Transfers to other funds:		
Debt service fund		<u>696,030</u>
Ending balance		<u><u>\$ 1,050,540</u></u>

For the year ended June 30, 2012, the District reduced the following levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa:

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service levy	<u>\$ 2.29086</u>	<u>\$ 696,030</u>

IV-M-12 Student Activity Fund - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

We noted Lifetouch commissions recorded in the Student Activity Fund. According to Chapter 298A.2 of the Code of Iowa all money received by a District must be accounted for in the General Fund except for money required by law to be accounted for in another fund. Commissions are not specifically identified as allowable revenue for the Student Activity Fund, therefore Lifetouch commissions should be receipted into the General Fund

We noted Target donations recorded into the Student Activity Fund. Target donations are undesignated and therefore, more appropriate in the General Fund.

We noted AP testing exam revenues and expenses recorded in the Student Activity Fund. These are instructional in nature and therefore, more appropriate in the General Fund.

We noted revenues and expenses for a Speech scholarship recorded in the Student Activity Fund. This type of activity is more appropriately recorded in the Private Purpose Trust Fund.

The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund.

Response - The District has implemented the above recommendations for recording receipts and expenditures.

Conclusion - Response accepted.

IV-N-12 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. The District currently receipts this into the Student Activity Fund.

Recommendation - Chapter 297.9 of the Code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - The District will implement the above procedure in compliance of our rental agreement policy #1004.1R2 and Chapter 297.9 of the Code of Iowa.

Conclusion - Response accepted.

IV-O-12 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

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

Response - We will have the Board President sign all contracts.

Conclusion - Response accepted.

IV-P-12 Financial Condition - We noted during our audit that the Daycare Fund had deficit net assets of \$931 and the Special Revenue, Student Activity Fund had one negative account of \$7,644 at June 30, 2012.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - The District will continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Conclusion - Response accepted.