

DELWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

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Delwood Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
Rhonda Denger	President	2008
Carmen Gerlach	Vice President	2008
Jody Holtz	Board Member	2009
Ron Filloon	Board Member	2010
Steve Kinrade	Board Member	2010
Board of Education (After September 2008 Election)		
Rhonda Denger	President	2011
Carmen Gerlach	Vice President	2011
Jody Holtz	Board Member	2009
Ron Filloon	Board Member	2011*
Steve Kinrade	Board Member	2009*
School Officials		
Sue Goodall	Superintendent	2009
Jane Goodenow	District Secretary/Treasurer	2009
Ahlers & Cooney, P.C.	Attorney	2009

* Board term extended/shortened per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Delwood Community School District, Delmar, Iowa as of and for the year ended June 30, 2009, 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 the Delwood Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 10, 2010 on our consideration of the Delwood Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 36 through 37 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delwood 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 year ended June 30, 2008 (which is not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 10, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Delwood 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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,322,818 in fiscal 2008 to \$2,268,804 in fiscal 2009, and General Fund expenditures increased from \$2,232,379 in fiscal 2008 to \$2,459,000 in fiscal 2009. The District's General Fund balance decreased from \$787,511 in fiscal 2008 to a balance of \$597,315 in fiscal 2009, a decrease of 24.15% from the prior year.
- The decrease in General Fund revenues was largely attributable to a reduction in state sources of revenue received because of an enrollment decrease and state cuts for categorical and state aid. Increased spending in the instruction functional areas were the biggest cause of the increase in expenditures. The Delwood District chose to double our second year preschool program, increase wages across the board by 4.5%, to install an instructional preschool playground funded with a grant and the costs of our special education program increased. It was a Board choice to spend down our fund balance by maintaining the property tax levy at a current level, but still maintaining enough balance to carry through the lean months of summer.

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 Delwood 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 Delwood 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 Delwood Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

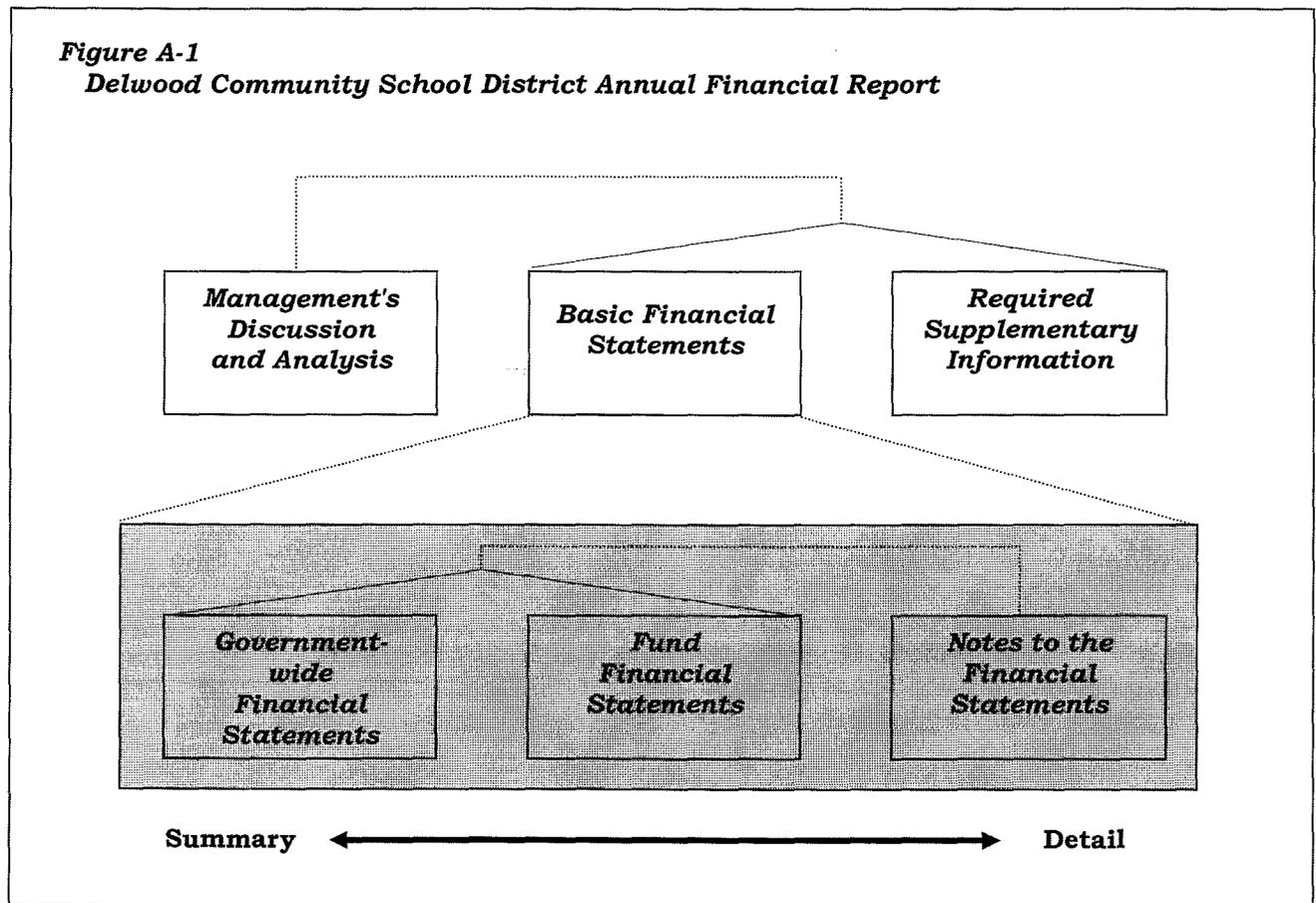


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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 government-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 2,287,160	2,590,186	10,550	982	2,297,710	2,591,168	-11.33%
Capital assets	1,186,935	1,138,284	9,044	10,055	1,195,979	1,148,339	4.15%
Total assets	<u>3,474,095</u>	<u>3,728,470</u>	<u>19,594</u>	<u>11,037</u>	<u>3,493,689</u>	<u>3,739,507</u>	<u>-6.57%</u>
Long-term obligations	13,572	232,145	-	-	13,572	232,145	-94.15%
Other liabilities	879,958	937,392	883	725	880,841	938,117	-6.11%
Total liabilities	<u>893,530</u>	<u>1,169,537</u>	<u>883</u>	<u>725</u>	<u>894,413</u>	<u>1,170,262</u>	<u>-23.57%</u>
Net assets:							
Invested in capital assets, net of related debt	1,186,935	933,284	9,044	10,055	1,195,979	943,339	26.78%
Restricted	762,955	807,804	-	-	762,955	807,804	-5.55%
Unrestricted	630,675	817,845	9,667	257	640,342	818,102	-21.73%
Total net assets	<u>\$ 2,580,565</u>	<u>2,558,933</u>	<u>18,711</u>	<u>10,312</u>	<u>2,599,276</u>	<u>2,569,245</u>	<u>1.17%</u>

The District's combined net assets increased by 1.17%, or \$30,031, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$44,849 or 5.55% from the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day –to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased 21.73% or \$177,760.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to June 30, 2008.

	Figure A-4							
	Changes of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
2009	2008	2009	2008	2009	2008	2008-09		
Revenues and Transfers:								
Program revenues:								
Charges for services	\$ 182,881	128,677	30,401	25,305	213,282	153,982	38.51%	
Operating grants and contributions and restricted interest	399,770	328,233	38,250	26,128	438,020	354,361	23.61%	
General revenues:								
Property tax	721,438	728,749	-	-	721,438	728,749	-1.00%	
Income surtax	72,863	70,168	-	-	72,863	70,168	3.84%	
Statewide sales and services tax	192,505	170,077	-	-	192,505	170,077	13.19%	
Unrestricted state grants	959,492	1,154,033	-	-	959,492	1,154,033	-16.86%	
Other	42,229	77,864	55	155	42,284	78,019	-45.80%	
Transfers	633	(2,745)	(633)	2,745	-	-	0.00%	
Total revenues and transfers	<u>2,571,811</u>	<u>2,655,056</u>	<u>68,073</u>	<u>54,333</u>	<u>2,639,884</u>	<u>2,709,389</u>	<u>-2.57%</u>	
Program expenses:								
Governmental activities:								
Instructional	1,810,299	1,614,727	-	-	1,810,299	1,614,727	12.11%	
Support services	541,692	599,741	-	-	541,692	599,741	-9.68%	
Non-instructional programs	33,070	30,951	59,674	56,406	92,744	87,357	6.17%	
Other expenses	165,118	213,948	-	-	165,118	213,948	-22.82%	
Total expenses	<u>2,550,179</u>	<u>2,459,367</u>	<u>59,674</u>	<u>56,406</u>	<u>2,609,853</u>	<u>2,515,773</u>	<u>3.74%</u>	
Change in net assets	21,632	195,689	8,399	(2,073)	30,031	193,616	-84.49%	
Net assets beginning of year	<u>2,558,933</u>	<u>2,363,244</u>	<u>10,312</u>	<u>12,385</u>	<u>2,569,245</u>	<u>2,375,629</u>	<u>8.15%</u>	
Net assets end of year	<u>\$ 2,580,565</u>	<u>2,558,933</u>	<u>18,711</u>	<u>10,312</u>	<u>2,599,276</u>	<u>2,569,245</u>	<u>1.17%</u>	

In fiscal 2009, property tax, income surtax, statewide sales and service tax and unrestricted state grants account for 75.68% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$2.64 million of which \$2.57 million was for governmental activities and \$0.07 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.57% decline in revenues and a 3.74% increase in expenses. The largest real money decline in revenues occurred in unrestricted state grants received. The District's continued efforts to control costs served to minimize the increase in expenditures.

Governmental Activities

Revenues for governmental activities were \$2,571,811 and expenses were \$2,550,179.

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

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 1,810,299	1,614,727	12.11%	1,350,252	1,246,879	8.29%
Support services	541,692	599,741	-9.68%	541,692	599,741	-9.68%
Non-instructional programs	33,070	30,951	6.85%	0	30,951	-100.00%
Other expenses	165,118	213,948	-22.82%	75,584	124,886	-39.48%
Totals	<u>\$ 2,550,179</u>	<u>2,459,367</u>	<u>3.69%</u>	<u>1,967,528</u>	<u>2,002,457</u>	<u>-1.74%</u>

- The cost financed by users of the District's programs was \$182,881.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$399,770.
- The net cost of governmental activities was financed with \$721,438 in property tax, \$72,863 in income surtax, \$192,505 in statewide sales tax, \$959,492 in unrestricted state grants, and \$36,110 in interest income.

Business type Activities

Revenues of the District's business type activities were \$68,073 and expenses were \$59,674. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Delwood 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 balance of \$1,340,485 below last year's ending fund balance of \$1,586,608.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$787,511 on June 30, 2008 to \$597,315 on June 30, 2009. The fluctuation in the District's General Fund financial position is the product of many factors. The modest decline in revenues was mainly caused by the reduction in state grants received. The decline in revenues coupled with increased expenditures required the District to use a portion of the carry over fund balance to meet its financial obligations for the year.
- The Management Levy fund balance decreased from \$71,714 in 2008, to \$61,242 in 2009, due in large part to receiving only about half of the revenues received last year.

-
- The Special Revenue, Physical Plant and Equipment Levy (PPEL) fund balance increased from \$349,926 to \$361,926. While revenues declined only slightly, the District substantially reduced spending from the PPEL Fund resulting in improvement to the fund balance.
 - The District's Capital Projects fund balance decreased from \$367,567 to \$309,020 due primarily to substantial transfers to the Debt Service Fund for the final payment of the District's 2003 revenue bonds. Another portion of the revenue created by Statewide Sales and Service Tax funds are designated for special purposes. \$130,836 of the fund balance is designated to follow students for the whole grade sharing agreement with Maquoketa Community School District to provide the 7-12th graders with appropriate facilities. This is monitored by the Facilities Improvement Committee with representatives from both Districts.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$10,312 at June 30, 2008 to \$18,711 at June 30, 2009, representing an increase of approximately 81.45%. For fiscal 2009, the increase in net assets was due primarily to increased revenues from federal sources.

BUDGETARY HIGHLIGHTS

The District's revenues were \$20,036 less than budgeted revenues, a variance of 0.75%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were \$201,125 less than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures higher than expected to allow for unexpected categorical funding, substitute expenses for long term leaves, textbooks and computers. A line-item budget with prior year's comparisons, known expenditures and allowances for unexpected expenditures during the year is created before the budget is submitted in April. The line-item budget is updated several times during the year. 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, 2009, the District had invested \$1,195,979, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 4.15% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$67,588.

The original cost of the District's capital assets was \$2,377,986. Governmental funds account for \$2,345,323 with the remainder of \$32,663 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment, net of depreciation, totaled \$154,684 at June 30, 2009, compared to \$113,316 reported at June 30, 2008.

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,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 600	600	-	-	600	600	0.00%
Buildings	1,019,703	1,012,511	-	-	1,019,703	1,012,511	0.71%
Land improvements	20,992	21,912	-	-	20,992	21,912	-4.20%
Machinery and equipment	145,640	103,261	9,044	10,055	154,684	113,316	36.51%
Total	\$ 1,186,935	1,138,284	9,044	10,055	1,195,979	1,148,339	4.15%

Long-Term Debt

At June 30, 2009, the District had \$13,572 in long-term debt outstanding. This represents a decrease of 94.15% 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 total outstanding Early Retirement payable from the Special Revenue, Management Levy Fund of \$13,572 at June 30, 2009.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
Revenue bonds	\$ -	205,000	-100.00%
Early retirement	13,572	27,145	-50.00%
Total	\$ 13,572	232,145	-94.15%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- With the September 25, 2009 ten percent across-the-board reduction, the District will continue to implement cost-saving measures and develop a plan for the remainder of the 2009/2010 year. The Board of Education will determine what cost-saving measures we will implement and how much we can spend from our reserves.
- The District's enrollment continued to decrease from 236.7 in the fall of 2007 to 230.3 in the fall of 2008 which affected the District's revenues because both the state formula funding and categorical funding are based on student enrollment. However, open enrollment students have helped us to maintain our classroom sizes and financial stability. Our preschool has continued to grow. In the fall of 2009 our student enrollment increased thirteen students which will determine our funding for 2010-2011.
- Our property tax valuations for the 2009-2010 budget year increased 4.6%.

-
- Iowa legislatures again increased allowable growth 4% for 2009-2010, but then called a 10% across-the-board cut for state aid and categorical funding, therefore giving us authority but not funding it. The legislature has also continued to support Teacher Quality programs for increased wages and staff development, although it will not be completely funded after the state cut.
 - In April, the District chose to pay off their 2003 revenue bonds.
 - The Board felt comfortable using cash balance to maintain the levy rate without affecting the educational opportunities for students.
 - The District has continued to support a quality before and after school program with the assistance of the American Recovery and Reinvestment Act of 2009, other grants and parent fees. The District feels it offers a safe environment with additional educational opportunities.
 - The District has continued to offer a morning and afternoon preschool for multi-aged 3,4 and 5 year olds working and playing together to prepare students for the transition into kindergarten. The District offers daycare for the balance of the day, to accommodate parents work schedules and offer stability for the student. The District received 60% of state cost per pupil as state aid for all of the four year olds. The District views this as another step offering educational opportunities for children, while remaining economically steady. This year with the assistance of an empowerment grant, a new playground was installed for the preschool program.
 - Since 2006-07, the District has combined the principal and superintendent position reducing administrative expenditures and allowing more funding for the education of Delwood students.
 - Delwood again offered summer school opportunities for students entering kindergarten and another program for k-6 students. The programs were funded with empowerment grants and parent fees. The programs were well attended, and considered a success.
 - Insurance costs decreased for property, casualty, and vehicles. The rates for employee health insurance decreased slightly for 2008-2009 but increased 18.96% for 2009-2010.
 - The Delwood Community School District and the Delwood Education Association have a two year agreement through 2009-2010 for a 4.5% package increase each year.
 - 2009-2010 will be the 23rd year of a Whole Grade Sharing Agreement with Maquoketa Community School District for the 7-12 grade students. Currently the District pays 92% of the state per pupil cost, teacher quality and a per pupil cost of the Statewide Sales and Services Tax under 28E agreements. The District provides the transportation for their students. The District feels this is giving students in both districts additional educational opportunities.
 - The District has remained financially stable and has projected to remain independent for years to come. While the District has one of the lowest levy rates of the state, the District has the ability to levy more due to its \$3,000,000 carry over "spending authority" and the Educational Improvement Program adopted by voters in 1990 that can be funded through both property tax and income surtax.
 - The District continues to offer a strong education as evidenced by student achievement data.

-
- The District has a very experienced teaching staff that supports student learning and a very supportive non-certified staff. Delwood offers many professional development opportunities our instructional and administrative staff.
 - The District maintains reliable transportation vehicles, modern equipment and technology, modern media center and retains their building in quality condition.

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 Jane L. Goodenow, District Secretary/Treasurer and Business Manager or Superintendent Sue Goodall, Delwood Community School District, 311 Delmar Avenue, P.O. Box 292, Delmar, Iowa 52037.

BASIC FINANCIAL STATEMENTS

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DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,346,668	10,001	1,356,669
Receivables:			
Property tax:			
Delinquent	12,664	-	12,664
Succeeding year	755,207	-	755,207
Income surtax	65,257	-	65,257
Accounts	1,366	9	1,375
Due from other governments	99,843	-	99,843
Prepays	6,155	-	6,155
Inventories	-	540	540
Capital assets, net of accumulated depreciation	1,186,935	9,044	1,195,979
Total assets	3,474,095	19,594	3,493,689
Liabilities			
Accounts payable	45	-	45
Salaries and benefits payable	99,511	-	99,511
Deferred revenue:			
Succeeding year property tax	755,207	-	755,207
Other	25,195	-	25,195
Unearned revenue	-	883	883
Long-term liabilities:			
Portion due within one year:			
Early retirement	13,572	-	13,572
Total liabilities	893,530	883	894,413
Net Assets			
Invested in capital assets, net of related debt	1,186,935	9,044	1,195,979
Restricted for:			
Categorical funding	33,357	-	33,357
Capital projects	309,020	-	309,020
Physical plant & equipment levy	361,926	-	361,926
Management levy	47,670	-	47,670
Other special revenue purposes	10,982	-	10,982
Unrestricted	630,675	9,667	640,342
Total net assets	\$ 2,580,565	18,711	2,599,276

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, and Restricted Contributions Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,301,545	167,429	272,377	(861,739)	-	(861,739)
Special	507,548	-	18,344	(489,204)	-	(489,204)
Other	1,206	1,897	-	691	-	691
	<u>1,810,299</u>	<u>169,326</u>	<u>290,721</u>	<u>(1,350,252)</u>	<u>-</u>	<u>(1,350,252)</u>
Support services:						
Student	26,826	-	-	(26,826)	-	(26,826)
Instructional staff	36,496	-	-	(36,496)	-	(36,496)
Administration	211,153	-	-	(211,153)	-	(211,153)
Operation and maintenance of plant	105,193	-	-	(105,193)	-	(105,193)
Transportation	162,024	-	-	(162,024)	-	(162,024)
	<u>541,692</u>	<u>-</u>	<u>-</u>	<u>(541,692)</u>	<u>-</u>	<u>(541,692)</u>
Non-instructional programs	33,070	13,555	19,515	-	-	-
Other expenditures:						
Facilities acquisitions	42,084	-	-	(42,084)	-	(42,084)
Long-term debt interest	8,522	-	-	(8,522)	-	(8,522)
AEA flowthrough	89,534	-	89,534	-	-	-
Depreciation (unallocated)*	24,978	-	-	(24,978)	-	(24,978)
	<u>165,118</u>	<u>-</u>	<u>89,534</u>	<u>(75,584)</u>	<u>-</u>	<u>(75,584)</u>
Total governmental activities	2,550,179	182,881	399,770	(1,967,528)	-	(1,967,528)
Business Type activities:						
Non-instructional programs:						
Nutrition services	59,674	30,401	38,250	-	8,977	8,977
Total business type activities	<u>59,674</u>	<u>30,401</u>	<u>38,250</u>	<u>-</u>	<u>8,977</u>	<u>8,977</u>
Total	\$ <u>2,609,853</u>	<u>213,282</u>	<u>438,020</u>	<u>(1,967,528)</u>	<u>8,977</u>	<u>(1,958,551)</u>
General Revenues and Transfers:						
General Revenues:						
Property tax: levied for:						
General purposes				\$ 660,053	-	660,053
Capital outlay				61,385	-	61,385
Income surtax				72,863	-	72,863
Statewide sales and services tax				192,505	-	192,505
Unrestricted state grants				959,492	-	959,492
Unrestricted investment earnings				36,110	55	36,165
Other				6,119	-	6,119
Transfers				633	(633)	-
Total general revenues and transfers				<u>1,989,160</u>	<u>(578)</u>	<u>1,988,582</u>
Changes in net assets				21,632	8,399	30,031
Net assets beginning of year				<u>2,558,933</u>	<u>10,312</u>	<u>2,569,245</u>
Net assets end of year				\$ <u>2,580,565</u>	<u>18,711</u>	<u>2,599,276</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General	Physical Plant and Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets					
Cash and pooled investments	\$ 635,603	359,648	278,189	71,768	1,345,208
Receivables:					
Property tax:					
Delinquent	11,130	1,078	-	456	12,664
Succeeding year	713,977	21,230	-	20,000	755,207
Income surtax	65,257	-	-	-	65,257
Accounts	166	1,200	-	-	1,366
Due from other governments	69,012	-	30,831	-	99,843
Prepays	6,155	-	-	-	6,155
Total assets	\$ 1,501,300	383,156	309,020	92,224	2,285,700
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 45	-	-	-	45
Salaries and benefits payable	99,511	-	-	-	99,511
Deferred revenue:					
Succeeding year property tax	713,977	21,230	-	20,000	755,207
Income surtax	65,257	-	-	-	65,257
Other	25,195	-	-	-	25,195
Total liabilities	903,985	21,230	-	20,000	945,215
Fund balances:					
Reserved for:					
Categorical funding	33,357	-	-	-	33,357
Unreserved:					
Designated for special purposes	-	-	130,836	-	130,836
Undesignated	563,958	361,926	178,184	72,224	1,176,292
Total fund balances	597,315	361,926	309,020	72,224	1,340,485
Total liabilities and fund balances	\$ 1,501,300	383,156	309,020	92,224	2,285,700

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances of governmental funds (page 17)	\$ 1,340,485
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,186,935
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	1,460
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	65,257
Long-term liabilities, including early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(13,572)</u>
Net assets of governmental activities (page 15)	<u><u>\$ 2,580,565</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	Physical		Other		Total
	General	Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	
REVENUES:					
Local sources:					
Local tax:					
Local tax	\$ 706,791	61,385	192,505	26,005	986,686
Tuition	163,233	-	-	-	163,233
Other	38,945	9,017	6,460	7,455	61,877
Intermediate sources	53,884	-	-	-	53,884
State sources	1,230,175	42	-	18	1,230,235
Federal sources	75,143	-	-	-	75,143
Total revenues	<u>2,268,171</u>	<u>70,444</u>	<u>198,965</u>	<u>33,478</u>	<u>2,571,058</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	1,290,598	6,995	-	13,362	1,310,955
Special	505,550	-	-	-	505,550
Other	-	-	-	998	998
	<u>1,796,148</u>	<u>6,995</u>	<u>-</u>	<u>14,360</u>	<u>1,817,503</u>
Support services:					
Student	24,427	-	-	-	24,427
Instructional staff	43,539	-	-	-	43,539
Administration	202,581	-	-	7,526	210,107
Operation and maintenance of plant	120,233	21,400	-	13,510	155,143
Transportation	150,603	-	-	6,307	156,910
	<u>541,383</u>	<u>21,400</u>	<u>-</u>	<u>27,343</u>	<u>590,126</u>
Non-instructional programs	31,935	-	-	1,135	33,070
Other expenditures:					
Facilities acquisitions	-	30,049	43,285	-	73,334
Long-term debt:					
Principal	-	-	-	205,000	205,000
Interest and fiscal charges	-	-	-	9,247	9,247
AEA flowthrough	89,534	-	-	-	89,534
	<u>89,534</u>	<u>30,049</u>	<u>43,285</u>	<u>214,247</u>	<u>377,115</u>
Total expenditures	<u>2,459,000</u>	<u>58,444</u>	<u>43,285</u>	<u>257,085</u>	<u>2,817,814</u>
Excess(deficiency) of revenues over(under) expenditures	(190,829)	12,000	155,680	(223,607)	(246,756)
Other financing sources(uses):					
Transfer in	633	-	-	214,227	214,860
Transfer out	-	-	(214,227)	-	(214,227)
Total other financing sources(uses)	<u>633</u>	<u>-</u>	<u>(214,227)</u>	<u>214,227</u>	<u>633</u>
Net change in fund balances	(190,196)	12,000	(58,547)	(9,380)	(246,123)
Fund balance beginning of year	787,511	349,926	367,567	81,604	1,586,608
Fund balance end of year	<u>\$ 597,315</u>	<u>361,926</u>	<u>309,020</u>	<u>72,224</u>	<u>1,340,485</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD 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, 2009

Net change in fund balances - total governmental funds (page 19) \$ (246,123)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year, are as follows:

Capital expenditures	\$ 94,223	
Depreciation expense	<u>(45,572)</u>	48,651

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 120

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (314)

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. Current year repayments, are as follows:

Repaid		205,000
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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. 725

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:

Early retirement	<u>13,573</u>	
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Changes in net assets of governmental activities (page 16) \$ 21,632

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Assets		
Cash and cash equivalents	\$ 10,001	1,460
Receivables:		
Accounts	9	-
Inventories	540	-
Capital assets, net of accumulated depreciation	9,044	-
Total assets	<u>19,594</u>	<u>1,460</u>
Liabilities		
Unearned revenues	883	-
Net Assets		
Invested in capital assets	9,044	-
Unrestricted	9,667	1,460
Total net assets	<u>\$ 18,711</u>	<u>1,460</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 30,141	9,040
Miscellaneous	260	-
TOTAL OPERATING REVENUES	<u>30,401</u>	<u>9,040</u>
OPERATING EXPENSES:		
Support services:		
Administration:		
Services	-	9,354
Non-instructional programs:		
Food services operations:		
Salaries	20,424	-
Benefits	2,844	-
Services	4,397	-
Supplies	30,328	-
Depreciation	1,681	-
	<u>59,674</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>59,674</u>	<u>9,354</u>
OPERATING LOSS	(29,273)	(314)
NON-OPERATING REVENUES:		
Interest	55	-
State sources	840	-
Federal sources	37,410	-
TOTAL NON-OPERATING REVENUES	<u>38,305</u>	<u>-</u>
Change in net assets before other financing uses	<u>9,032</u>	<u>(314)</u>
OTHER FINANCING USES		
Transfers out	(633)	-
TOTAL OTHER FINANCING USES	<u>(633)</u>	<u>-</u>
Change in net assets	8,399	(314)
Net assets beginning of year	<u>10,312</u>	<u>1,774</u>
Net assets end of year	<u>\$ 18,711</u>	<u>1,460</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 30,468	-
Cash received from miscellaneous operating activities	260	9,040
Cash payments to employees for services	(23,268)	-
Cash payments to suppliers for goods or services	(31,023)	(9,354)
Net cash used in operating activities	(23,563)	(314)
Cash flows from non-capital financing activities:		
Transfer to General fund	(633)	-
State grants received	840	-
Federal grants received	33,863	-
Net cash provided by non-capital financing activities	34,070	-
Cash flows from capital financing activities:		
Acquisition of assets	(670)	-
Cash flows from investing activities:		
Interest on investments	55	-
Net increase(decrease) in cash and cash equivalents	9,892	(314)
Cash and cash equivalents at beginning of year	109	1,774
Cash and cash equivalents at end of year	\$ 10,001	1,460
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (29,273)	(314)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	3,547	-
Depreciation	1,681	-
Decrease in inventories	155	-
Decrease in accounts receivable	169	-
Increase in unearned revenue	158	-
Net cash used in operating activities	\$ (23,563)	(314)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 10,001	1,460
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2009, the District received Federal commodities valued at \$3,547.		

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	<u>Private Purpose Trust</u>
	<u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 132,647
Liabilities	<u>-</u>
Net Assets	
Restricted for scholarships	\$ 132,647

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
STATEMENT CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2009

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ 3,080
Deductions:	
Instruction:	
Scholarships awarded	5,498
Change in net assets	(2,418)
Net assets beginning of year	<u>135,065</u>
Net assets end of year	<u>\$ 132,647</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

DELWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

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

The Delwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades preschool through sixth. Additionally, the District either operates or sponsors various after school programs for the community. The geographic area served includes the Cities of Delmar and Elwood, Iowa, and the predominate agricultural territory in Clinton and Jackson 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, Delwood 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 Delwood 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 Clinton and Jackson 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.

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.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The District's proprietary funds are the School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Balances

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than twelve 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, 2007 assessed property valuations; is for the tax

accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

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

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

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

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

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

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

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

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation, but are set aside for a specific purpose.

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2009 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 of 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, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 40,961</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Transfers

The detail of transfers for the year ended June 30, 2009 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise, School Nutrition	\$ 633
Debt Service	Capital Projects: Statewide Sales and Services Tax	156,995
Debt Service	Capital Projects: Bond Construction	57,232
Total		<u>\$ 214,860</u>

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

The School Nutrition Fund transferred the above amount to the General Fund for after school snack reimbursement.

The Capital Projects: Statewide Sales and Services Tax Fund transferred the above amount to the Debt Service Fund for the payment of revenue debt.

The Capital Projects: Bond Construction Fund transferred the above amount to debt service for excess retainer and reserve.

(4) Capital Assets

Capital assets activity for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 31,993	670	-	32,663
Less accumulated depreciation	21,938	1,681	-	23,619
Business type activities capital assets, net	<u>\$ 10,055</u>	<u>(1,011)</u>	<u>-</u>	<u>9,044</u>

	Balance			Balance
	Beginning			End
	of Year	Increases	Decreases	of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 600	-	-	600
Total capital assets not being depreciated	600	-	-	600
Capital assets being depreciated:				
Buildings	1,292,639	30,424	-	1,323,063
Land improvements	43,942	826	-	44,768
Machinery and equipment	913,919	83,308	20,335	976,892
Total capital assets being depreciated	2,250,500	114,558	20,335	2,344,723
Less accumulated depreciation for:				
Buildings	280,128	23,232	-	303,360
Land improvements	22,030	1,746	-	23,776
Machinery and equipment	810,658	40,929	20,335	831,252
Total accumulated depreciation	1,112,816	65,907	20,335	1,158,388
Total capital assets being depreciated, net	1,137,684	48,651	-	1,186,335
Governmental activities capital assets, net	\$ 1,138,284	48,651	-	1,186,935

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 1,138
Special	1,998
Other	208
Support services:	
Student	2,399
Instructional staff	10,671
Administration	1,046
Operation and maintenance of plant	15,644
Transportation	7,825
	40,929
Unallocated depreciation	24,978
Total governmental activities depreciation expense	\$ 65,907
Business type activities:	
Food services	\$ 1,681

(5) **Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Revenue bonds	\$ 205,000	-	205,000	-	-
Early retirement	27,145	-	13,573	13,572	13,572
Total	\$ 232,145	-	218,573	13,572	13,572

Early Retirement

The District offered a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and have worked for the District at least fifteen years. Employees must complete an application which is required to be approved by the Board of Education. The employee will receive 50% of his/her last year's contracted wages to be paid into a special account over two years. The employee could elect to purchase health insurance through the school at his/her expense. Early retirement benefits paid during the year ended June 30, 2009 totaled \$13,573.

(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 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$58,083, \$53,570 and \$47,487, respectively, equal to the required contributions for each year.

(7) **Other Postemployment Benefits**

GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No.45.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$89,534 for the year ended June 30, 2008 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 ending balances for categorical funding by project as of June 30, 2009 are as follows:

<u>Project</u>	<u>Amount</u>
Market factor incentives	\$ 1,452
Professional development	667
Gifted and talented programs	23,466
Home school assistance program	1,716
Salary improvement program	5,928
Professional development for model core curriculum	128
	<hr/>
Total	<u><u>\$ 33,357</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

DELWOOD COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 1,211,856	30,456	1,242,312	1,226,967	1,226,967	15,345
Intermediate sources	53,884	-	53,884	-	-	53,884
State sources	1,230,175	840	1,231,015	1,343,883	1,343,883	(112,868)
Federal sources	75,143	37,410	112,553	88,950	88,950	23,603
Total revenues	<u>2,571,058</u>	<u>68,706</u>	<u>2,639,764</u>	<u>2,659,800</u>	<u>2,659,800</u>	<u>(20,036)</u>
Expenditures/Expenses:						
Instruction	1,817,503	-	1,817,503	1,922,314	1,922,314	104,811
Support services	590,126	-	590,126	672,020	672,020	81,894
Non-instructional programs	33,070	59,674	92,744	104,100	104,100	11,356
Other expenditures	377,115	-	377,115	380,179	380,179	3,064
Total expenditures/expenses	<u>2,817,814</u>	<u>59,674</u>	<u>2,877,488</u>	<u>3,078,613</u>	<u>3,078,613</u>	<u>201,125</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(246,756)	9,032	(237,724)	(418,813)	(418,813)	181,089
Other financing sources(uses), net	633	(633)	-	500	500	(500)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing uses	(246,123)	8,399	(237,724)	(418,313)	(418,313)	180,589
Balance beginning of year	<u>1,586,608</u>	<u>10,312</u>	<u>1,596,920</u>	<u>1,438,312</u>	<u>1,438,312</u>	<u>158,608</u>
Balance end of year	<u>\$ 1,340,485</u>	<u>18,711</u>	<u>1,359,196</u>	<u>1,019,999</u>	<u>1,019,999</u>	<u>339,197</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DELWOOD COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2009

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

DELWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Manage- ment Levy	Student Activity	Total
Assets			
Cash and pooled investments	\$ 60,786	10,982	71,768
Receivables:			
Property tax:			
Current year delinquent	456	-	456
Succeeding year	20,000	-	20,000
Total assets	\$ 81,242	10,982	92,224
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 20,000	-	20,000
Total liabilities	20,000	-	20,000
Unreserved fund balances	61,242	10,982	72,224
Total liabilities and fund balances	\$ 81,242	10,982	92,224

Note: Student Activity Fund consists of one account, 5th and 6th Grade Trip.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DELWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2009

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total Special Revenue	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 26,005	-	26,005	-	26,005
Other	5,345	2,090	7,435	20	7,455
State sources	18	-	18	-	18
Total revenues	<u>31,368</u>	<u>2,090</u>	<u>33,458</u>	<u>20</u>	<u>33,478</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	13,362	-	13,362	-	13,362
Other	-	998	998	-	998
	<u>13,362</u>	<u>998</u>	<u>14,360</u>	<u>-</u>	<u>14,360</u>
Support services:					
Administration	7,526	-	7,526	-	7,526
Operation and maintenance of plant	13,510	-	13,510	-	13,510
Transportation	6,307	-	6,307	-	6,307
	<u>27,343</u>	<u>-</u>	<u>27,343</u>	<u>-</u>	<u>27,343</u>
Non-instructional programs	1,135	-	1,135	-	1,135
Other expenditures:					
Long-term debt:					
Principal	-	-	-	205,000	205,000
Interest and fiscal charges	-	-	-	9,247	9,247
	<u>-</u>	<u>-</u>	<u>-</u>	<u>214,247</u>	<u>214,247</u>
Total expenditures	<u>41,840</u>	<u>998</u>	<u>42,838</u>	<u>214,247</u>	<u>257,085</u>
Excess(deficiency) of revenues over(under) expenditures	(10,472)	1,092	(9,380)	(214,227)	(223,607)
Other financing sources:					
Transfers in	-	-	-	214,227	214,227
Net change in fund balances	(10,472)	1,092	(9,380)	-	(9,380)
Fund balance beginning of year	71,714	9,890	81,604	-	81,604
Fund balance end of year	<u>\$ 61,242</u>	<u>10,982</u>	<u>72,224</u>	<u>-</u>	<u>72,224</u>

Note: Student Activity Fund consists of one account, 5th and 6th Grade Trip.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DELWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET FOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2009

	Capital Projects Funds		
	Bond Construction	Statewide Sales and Services Tax	Total
Assets			
Cash and pooled investments	\$ 10	278,179	278,189
Due from other governments	-	30,831	30,831
Total assets	\$ 10	309,010	309,020
Liabilities and Fund Balances			
Liabilities	\$ -	-	-
Fund balances:			
Designated for special purpose	-	130,836	130,836
Unreserved fund balance	10	178,174	178,184
Total fund balances	10	309,010	309,020
Total liabilities and fund balances	\$ 10	309,010	309,020

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

DELWOOD COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2009

	Capital Projects Funds		
	Bond	Statewide Sales	Total
	Construction	and Services Tax	
REVENUES:			
Local sources:			
Statewide sales and services tax	\$ -	192,505	192,505
Interest on investments	456	6,004	6,460
TOTAL REVENUES	456	198,509	198,965
EXPENDITURES:			
Other expenditures:			
Facilities acquisitions	-	43,285	43,285
TOTAL EXPENDITURES	-	43,285	43,285
Excess of revenues over expenditures	456	155,224	155,680
Other financing uses:			
Transfers out	(57,232)	(156,995)	(214,227)
TOTAL OTHER FINANCING USES	(57,232)	(156,995)	(214,227)
Net change in fund balance	(56,776)	(1,771)	(58,547)
Fund balance beginning of year	56,786	310,781	367,567
Fund balances end of year	\$ 10	309,010	309,020

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 986,686	964,425	978,434	853,716	951,294	985,164
Tuition	163,233	110,758	109,445	85,099	119,719	87,935
Other	61,877	95,783	116,591	147,000	77,472	94,632
Intermediate sources	53,884	-	-	-	-	-
State sources	1,230,235	1,414,762	1,140,186	1,251,350	1,048,176	1,089,315
Federal sources	75,143	67,504	62,198	76,866	83,296	79,661
Total	<u>\$ 2,571,058</u>	<u>2,653,232</u>	<u>2,406,854</u>	<u>2,414,031</u>	<u>2,279,957</u>	<u>2,336,707</u>
Expenditures:						
Instruction:						
Regular	\$ 1,310,955	1,129,347	1,048,161	995,246	972,818	1,174,642
Special	505,550	365,641	448,685	427,745	421,871	142,863
Other	998	96,809	77,582	2,637	35,532	6,082
Support services:						
Student	24,427	21,463	17,766	24,034	29,342	68,414
Instructional staff	43,539	42,737	42,876	96,775	104,658	78,877
Administration	210,107	201,347	187,222	240,482	226,621	209,030
Operation and maintenance of plant	155,143	134,315	135,942	140,984	155,101	131,227
Transportation	156,910	234,964	150,036	133,769	137,182	100,440
Non-instructional programs	33,070	30,951	29,535	25,236	30,369	5,883
Other expenditures:						
Facilities acquisition	73,334	142,429	118,679	79,766	297,230	557,670
Long-term debt:						
Principal	205,000	65,000	60,000	60,000	55,000	55,000
Interest and other charges	9,247	12,510	15,810	19,110	22,135	18,870
AEA flow-through	89,534	89,062	80,430	79,033	76,804	79,308
Total	<u>\$ 2,817,814</u>	<u>2,566,575</u>	<u>2,412,724</u>	<u>2,324,817</u>	<u>2,564,663</u>	<u>2,628,306</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of the
Delwood 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 Delwood Community School District of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 10, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Delwood Community School District internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Delwood Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Delwood 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Delwood Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Delwood Community School District's financial statements that is more than inconsequential will not be prevented or detected by Delwood Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Delwood Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Delwood 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 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.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 10, 2010

DELWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - The administrative team including the superintendent/principal, superintendent/building secretary, business coordinator/board secretary and the Delwood School Board continue to review the accounting system procedures to reveal any discrepancies and implement changes to improve the internal control as necessary. Due to our size we do not have enough staff to split the duties as they should be but are comfortable assuming each other's positions in their absence and feel by constantly cross-checking and training it would reveal errors or omissions.

Conclusion - Response accepted.

I-B-09 Coding of Expenses - We noted during our audit that the Adventureland trip expense was coded against a revenue account in the Student Activity Fund instead of to an expense account.

Recommendation - Coding expenditures in this manner results in understating both revenues and expenditures. The District should always code expenditures to the proper expense accounts in the future.

Response - In the future Delwood will record the expenditures and revenues separately as advised.

Conclusion - Response accepted.

DELWOOD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009, did not exceed the amount budgeted.
- II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-09 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-09 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-09 Certified Enrollment - We noted no variance in the basic enrollment data certified to the Department of Education.
- II-H-09 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.
- II-I-09 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-09 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-K-09 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.3 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning balance		\$	-
Statewide sales and services tax revenue			192,505
Expenditures/transfers out:			
School infrastructure:			
28E agreement payment	\$	35,510	
Debt service for school infrastructure:			
Revenue debt		156,995	192,505
			<hr/>
Ending balance		\$	<u><u>-</u></u>