

EAST UNION COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Notes to Financial Statements		22-31
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		32
Notes to Required Supplementary Information - Budgetary Reporting		33
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	34
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	35
Capital Projects Funds:		
Combining Balance Sheet	3	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	4	37
Schedule of Changes in Special Revenue, Student Activity Accounts	5	38
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	39
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 <u>Government Auditing Standards</u>		40-41
Schedule of Findings		42-45

East Union Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2008 Election)</b>		
Lynn Kruse	President	2010
Shannon Harper	Vice President	2008
David Waigand	Board Member	2008
Kenneth Hagen	Board Member	2009
Sarah Long	Board Member	2009
<b>Board of Education (After September 2008 Election)</b>		
Lynn Kruse	President	2011 *
Shannon Harper	Vice President	2011
Lois Munden	Board Member	2011
Kenneth Hagen	Board Member	2009
Sarah Long	Board Member	2009
<b>School Officials</b>		
Dr. Pam Armstrong-Vogel	Superintendent	2009
Kay Vaughn	Co-Board Treasurer	2009
Billie Jo Greene	Business Manager, Board Secretary and Co-Board Treasurer	2009
Brian Gruhn	Attorney	2009

\* Board Term extended per the District's transition 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  
East Union 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 East Union Community School District, Afton, 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 East Union Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

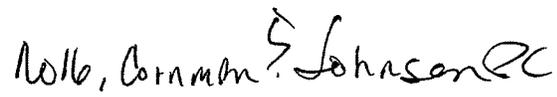
In accordance with Government Auditing Standards, we have also issued our report dated February 9, 2010 on our consideration of East Union Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

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 an opinion on the financial statements that collectively comprise East Union 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 five years ended June 30, 2008 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplemental information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 9, 2010

---

---

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

---

---

East Union 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 \$4,919,939 in fiscal 2008 to \$4,825,028 in fiscal 2009, while General Fund expenditures increased from \$5,157,788 in fiscal 2008 to \$5,253,940 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$1,193,464 in fiscal 2008 to \$764,552 in fiscal 2009, a 35.94% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in all funding revenue sources in fiscal 2009, with higher unemployment and the decrease in disposable income becoming a part of every day life. The increase in expenditures was due primarily to an increase in the instructional services and support services functional areas due to an increase in contracts and benefits and the raised costs that is passed on to the consumer.

### **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 East Union 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 East Union 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 East Union Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the non-major funds.

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

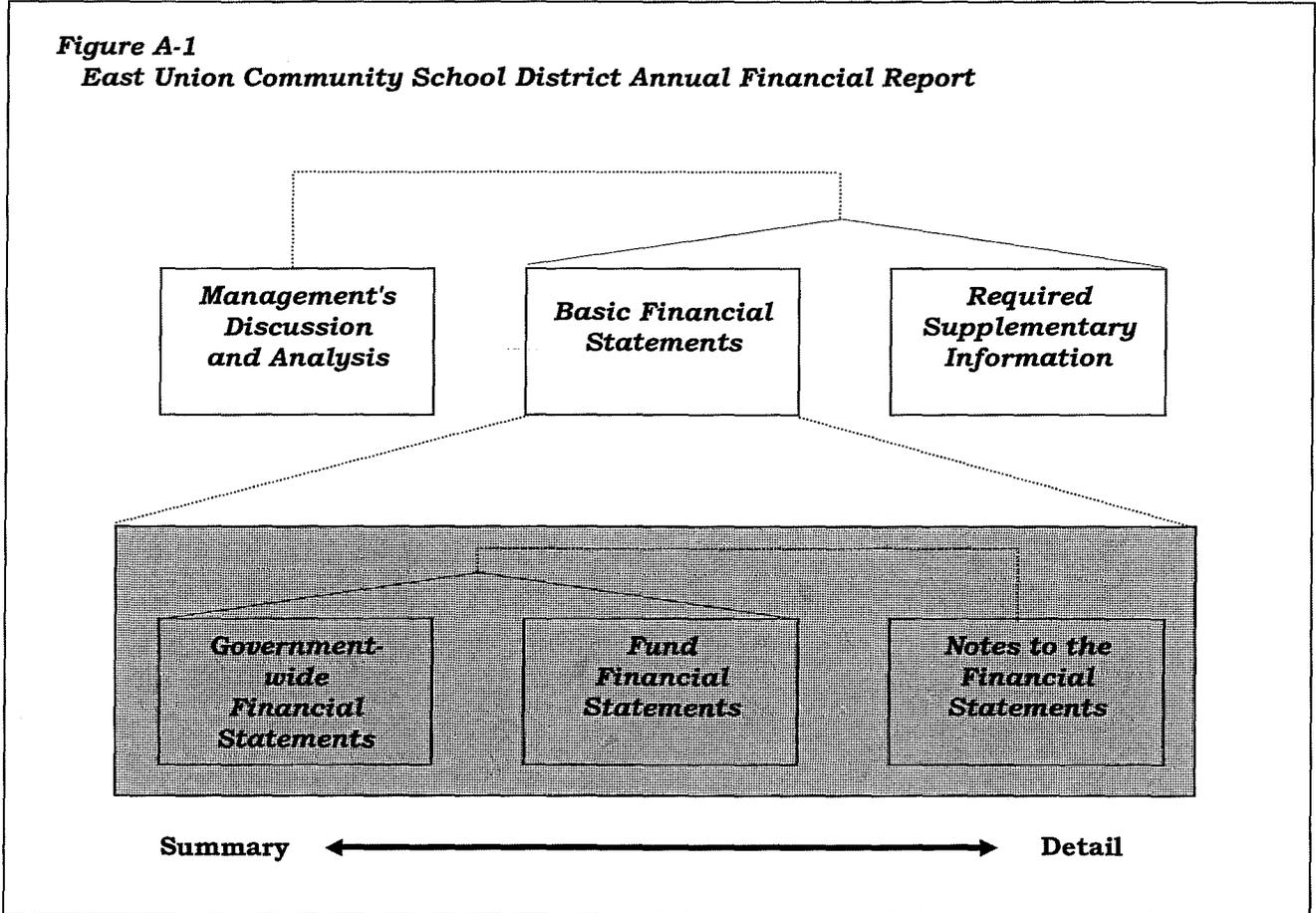


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary 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
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 net assets</li> <li>• Statement of cash flows</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
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
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

---

## 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 two 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, Capital Projects Fund and Debt Service Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 3,535,810	3,660,980	(13,694)	(3,775)	3,522,116	3,657,205	-3.69%
Capital assets	2,509,971	2,713,233	44,134	15,061	2,554,105	2,728,294	-6.38%
Total assets	6,045,781	6,374,213	30,440	11,286	6,076,221	6,385,499	-4.84%
Long-term obligations	766,146	936,215	0	0	766,146	936,215	-18.17%
Other liabilities	1,940,935	1,570,425	3,599	3,363	1,944,534	1,573,788	23.56%
Total liabilities	2,707,081	2,506,640	3,599	3,363	2,710,680	2,510,003	8.00%
Net assets:							
Invested in capital assets, net of related debt	1,749,971	1,783,233	44,134	15,061	1,794,105	1,798,294	-0.23%
Restricted	716,929	787,212	0	0	716,929	787,212	-8.93%
Unrestricted	871,800	1,297,128	(17,293)	(7,138)	854,507	1,289,990	-33.76%
Total net assets	\$ 3,338,700	3,867,573	26,841	7,923	3,365,541	3,875,496	-13.16%

The District's combined net assets decreased by 13.16% or \$509,955 from the prior year. A portion of the District's net assets is the invested in capital assets, 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 \$70,283 or 8.93% from the prior year. The decrease was primarily due to the decrease in the reserved fund balances of the special programs within the General Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$435,483 or 33.76%. This was due to a substantial increased expenses in the General Fund and Nutrition Fund.

Figure A-4 shows the changes in the District's 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 School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 354,219	313,691	122,800	111,470	477,019	425,161	12.20%
Operating grants and contributions and restricted interest	984,952	1,005,535	116,288	105,919	1,101,240	1,111,454	-0.92%
<b>General revenues:</b>							
Property tax	1,586,146	1,561,126	0	0	1,586,146	1,561,126	1.60%
Statewide sales and service tax	404,390	381,945	0	0	404,390	381,945	5.88%
Unrestricted state grants	2,094,266	2,260,982	0	0	2,094,266	2,260,982	-7.37%
Unrestricted interest	14,077	68,813	42	119	14,119	68,932	-79.52%
Other general revenue	93,857	59,281	662	0	94,519	59,281	59.44%
Transfers	(33,764)	0	33,764	0	0	0	0.00%
<b>Total revenues</b>	<b>5,498,143</b>	<b>5,651,373</b>	<b>273,556</b>	<b>217,508</b>	<b>5,771,699</b>	<b>5,868,881</b>	<b>-1.66%</b>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instructional	3,824,362	3,536,917	0	0	3,824,362	3,536,917	8.13%
Support services	1,543,659	1,544,023	0	0	1,543,659	1,544,023	-0.02%
Non-instructional programs	0	0	254,638	241,932	254,638	241,932	5.25%
Other expenses	658,995	342,742	0	0	658,995	342,742	92.27%
<b>Total expenses</b>	<b>6,027,016</b>	<b>5,423,682</b>	<b>254,638</b>	<b>241,932</b>	<b>6,281,654</b>	<b>5,665,614</b>	<b>10.87%</b>
Changes in net assets	(528,873)	227,691	18,918	(24,424)	(509,955)	203,267	-350.88%
Net assets beginning of year	3,867,573	3,639,882	7,923	32,347	3,875,496	3,672,229	5.54%
Net assets end of year	\$ 3,338,700	3,867,573	26,841	7,923	3,365,541	3,875,496	-13.16%

Property tax and unrestricted state grants account for 66.94% of the total revenue. The District's expenses primarily relate to instruction and support services that account for 90.06% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$5,498,143 and expenses were \$6,027,016. The revenues decreased in the governmental activities by \$153,230 or 2.71% and expenses increased by \$603,334 or 11.12%.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 3,824,362	3,536,917	8.13%	2,677,658	2,396,663	11.72%
Support services	1,543,659	1,544,023	-0.02%	1,536,347	1,544,023	-0.50%
Other expenses	658,995	342,742	92.27%	473,840	163,770	189.33%
<b>Totals</b>	<b>\$ 6,027,016</b>	<b>5,423,682</b>	<b>11.12%</b>	<b>4,687,845</b>	<b>4,104,456</b>	<b>14.21%</b>

- 
- The cost financed by users of the District's programs was \$354,219.
  - Federal and state governments subsidized certain programs with grants and contributions totaling \$984,952.
  - The net cost of governmental activities was financed with \$1,586,146 in property tax, \$404,390 in statewide sales and service tax, \$2,094,266 in unrestricted state grants, \$14,077 in interest income and \$93,857 in other general revenue.

### **Business Type Activities**

Revenues of the District's business type activities were \$273,556 and expenses were \$254,638. 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 East Union 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 \$1,406,365 decreased from last year's ending fund balances of \$1,907,582. The primary reason for the decrease was the decrease in the fund balance of the General Fund.

### **Governmental Fund Highlights**

- The District's General Fund balance decreased from \$1,193,464 on June 30, 2008 to \$764,552 on June 30, 2009. The fluctuation in the District's General Fund financial position is the product of many factors. A decrease in all funding sources revenue during the year resulted in a decrease in total revenues. An increase in instructional and support service expenditures increased the total expenditures for the year. However, expenses exceeding revenues ensured the continuing decrease in the District's financial position.
- The Management fund balance increased from \$38,320 in 2008, to \$71,831 in 2009, due to the increase in other general sources of revenue that exceeded the increased expenditures in the regular instructional support functional area.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$3,297 in 2008 to \$41,157 in 2009, the increase was due to \$37,860 in revenue and no reported expenditures for the period.
- The Capital Projects fund balance decreased during the current year, from \$217,109 in 2008 to \$68,739 in 2009. The Capital Projects fund also includes Capital Projects fund for a playground. While the revenue decreased by \$183,503 in total, the statewide sales and services taxes revenue increased by \$22,445. The expenditures decreased by \$329,503 due to decreased expenditures in facilities acquisitions.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$7,923 at June 30, 2008 to \$26,841 at June 30, 2009, representing an increase of 238.77% or \$18,918.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$722,817 less than budgeted revenues, a variance of 11.13%. The most significant variances resulted from the District receiving less in local and state sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2009, the District had invested \$2,554,105, 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 decrease of 6.38% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$189,812.

Figure A-6

#### Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 14,205	14,205	0	0	14,205	14,205	0.00%
Construction in progress	267,167	412,599	0	0	267,167	412,599	-35.25%
Buildings	1,811,477	1,832,128	0	0	1,811,477	1,832,128	-1.13%
Land improvements	101,681	109,726	0	0	101,681	109,726	-7.33%
Machinery and equipment	315,441	344,575	44,134	15,061	359,575	359,636	-0.02%
<b>Total</b>	<b>\$ 2,509,971</b>	<b>2,713,233</b>	<b>44,134</b>	<b>15,061</b>	<b>2,554,105</b>	<b>2,728,294</b>	<b>-6.38%</b>

The original cost of the District's capital assets was \$5,470,197. Governmental funds accounted for \$5,388,746 with the remainder of \$81,451 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress categories. The construction in progress totaled \$267,167 at June 30, 2009, compared to \$412,599 reported at June 30, 2008. The decrease resulted from the completion of some of the construction of playground equipment and construction of a walking trail made during the current year.

### Long-Term Debt

At June 30, 2009, the District had long-term debt outstanding of \$766,146 in revenue bonds and compensated absences (See Figure A-7). Additional detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The revenue bonds, which are being paid from the Capital Project Fund, have a balance of \$760,000 as of June 30, 2009, of this \$180,000 in principal is due next year.

The District, at year end, had compensated absences of \$6,146, which are payable from the General Fund.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30, 2009	June 30, 2008	June 30, 2008-09
Revenue bonds	\$ 760,000	930,000	-18.28%
Compensated absences	6,146	6,215	-1.11%
<b>Total</b>	<b>\$ 766,146</b>	<b>936,215</b>	<b>-18.17%</b>

### **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:

- Low allowable growth over several years and possible enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The District is looking at other financing sources to support the shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- 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 started in fiscal year 2005.

### **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 Billie Jo Greene, District Board Secretary/Treasurer, East Union Community School District, 1916 High School Drive, Afton, Iowa, 50830.

BASIC FINANCIAL STATEMENTS

EAST UNION COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Governmental Activities	Business type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,628,415	2,347	1,630,762
Receivables:			
Property tax:			
Delinquent	30,662	0	30,662
Succeeding year	1,467,738	0	1,467,738
Income surtax	201,849	0	201,849
Accounts	27,803	208	28,011
Interfund	19,607	(19,607)	0
Due to other governments	159,736	0	159,736
Inventories	0	3,358	3,358
Capital assets, net of accumulated depreciation	2,509,971	44,134	2,554,105
<b>TOTAL ASSETS</b>	<b>6,045,781</b>	<b>30,440</b>	<b>6,076,221</b>
<b>LIABILITIES</b>			
Accounts payable	375,479	0	375,479
Salaries and benefits payable	61,213	0	61,213
Interest payable	13,339	0	13,339
Deferred revenue:			
Succeeding year property tax	1,467,738	0	1,467,738
Other	23,166	0	23,166
Unearned revenue	0	3,599	3,599
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	180,000	0	180,000
Compensated absences	6,146	0	6,146
Portion due after one year:			
Revenue bonds	580,000	0	580,000
<b>TOTAL LIABILITIES</b>	<b>2,707,081</b>	<b>3,599</b>	<b>2,710,680</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,749,971	44,134	1,794,105
Restricted for:			
Debt Service	346,425	0	346,425
Categorical funding	75,116	0	75,116
Capital projects	68,739	0	68,739
Physical plant and equipment levy	41,157	0	41,157
Management levy	71,831	0	71,831
Other special revenue purposes	113,661	0	113,661
Unrestricted	871,800	(17,293)	854,507
<b>TOTAL NET ASSETS</b>	<b>\$ 3,338,700</b>	<b>26,841</b>	<b>3,365,541</b>

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION 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 Interest Contributions	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,422,339	153,992	763,588	(1,504,759)	0	(1,504,759)
Special	1,055,656	58,123	26,597	(970,936)	0	(970,936)
Other	346,367	142,104	2,300	(201,963)	0	(201,963)
	<u>3,824,362</u>	<u>354,219</u>	<u>792,485</u>	<u>(2,677,658)</u>	<u>0</u>	<u>(2,677,658)</u>
Support services:						
Student	152,814	0	0	(152,814)	0	(152,814)
Instructional staff	127,533	0	6,376	(121,157)	0	(121,157)
Administration	533,430	0	0	(533,430)	0	(533,430)
Operation and maintenance of plant	366,187	0	0	(366,187)	0	(366,187)
Transportation	363,695	0	936	(362,759)	0	(362,759)
	<u>1,543,659</u>	<u>0</u>	<u>7,312</u>	<u>(1,536,347)</u>	<u>0</u>	<u>(1,536,347)</u>
Other expenditures:						
Facilities acquisitions	356,870	0	0	(356,870)	0	(356,870)
Long-term debt interest	28,177	0	0	(28,177)	0	(28,177)
AEA flowthrough	185,155	0	185,155	0	0	0
Depreciation(unallocated)*	88,793	0	0	(88,793)	0	(88,793)
	<u>658,995</u>	<u>0</u>	<u>185,155</u>	<u>(473,840)</u>	<u>0</u>	<u>(473,840)</u>
Total governmental activities	6,027,016	354,219	984,952	(4,687,845)	0	(4,687,845)
Business Type activities:						
Non-instructional programs:						
Nutrition services	254,638	122,800	116,288	0	(15,550)	(15,550)
Total business type activities	<u>254,638</u>	<u>122,800</u>	<u>116,288</u>	<u>0</u>	<u>(15,550)</u>	<u>(15,550)</u>
Total	<u>\$ 6,281,654</u>	<u>477,019</u>	<u>1,101,240</u>	<u>(4,687,845)</u>	<u>(15,550)</u>	<u>(4,703,395)</u>
<b>General Revenues and Transfers:</b>						
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,548,305	0	1,548,305
Capital outlay				37,841	0	37,841
Statewide sales and services tax				404,390	0	404,390
Unrestricted state grants				2,094,266	0	2,094,266
Unrestricted investment earnings				14,077	42	14,119
Other general revenues				93,857	662	94,519
Transfers				(33,764)	33,764	0
Total general revenues and transfers				<u>4,158,972</u>	<u>34,468</u>	<u>4,193,440</u>
Changes in net assets				(528,873)	18,918	(509,955)
Net assets beginning of year				<u>3,867,573</u>	<u>7,923</u>	<u>3,875,496</u>
Net assets end of year				<u>\$ 3,338,700</u>	<u>26,841</u>	<u>3,365,541</u>

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

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,002,858	625,557	1,628,415
Receivables:			
Property tax:			
Delinquent	27,718	2,944	30,662
Succeeding year	1,333,345	134,393	1,467,738
Income surtax	201,849	0	201,849
Accounts	26,272	1,531	27,803
Interfund	19,607	0	19,607
Due from other governments	96,956	62,780	159,736
<b>TOTAL ASSETS</b>	<b>\$ 2,708,605</b>	<b>827,205</b>	<b>3,535,810</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 324,480	50,999	375,479
Salaries and benefits payable	61,213	0	61,213
Deferred revenue:			
Succeeding year property tax	1,333,345	134,393	1,467,738
Income surtax	201,849	0	201,849
Other	23,166	0	23,166
<b>Total liabilities</b>	<b>1,944,053</b>	<b>185,392</b>	<b>2,129,445</b>
Fund balances:			
Reserved for:			
Debt service	0	346,425	346,425
Categorical funding	75,116	0	75,116
Unreserved	689,436	295,388	984,824
<b>Total fund balances</b>	<b>764,552</b>	<b>641,813</b>	<b>1,406,365</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,708,605</b>	<b>827,205</b>	<b>3,535,810</b>

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION 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 15) \$ 1,406,365

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

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in in the governmental funds. 2,509,971

Accrued interest payable in long-term liabilities is not  
due and payable in the current period and, therefore,  
is not reported as a liability in the governmental funds. (13,339)

Accounts receivable income surtax, are not yet available  
to finance expenditures of the current fiscal period. 201,849

Long-term liabilities, including bonds payable and compensated  
absences payable are not due and payable in the current period  
and, therefore, are not reported as liabilities in the  
governmental funds. (766,146)

Net assets of governmental activities (page 13) \$ 3,338,700

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 1,450,208	537,256	1,987,464
Tuition	128,785	0	128,785
Other	175,493	166,551	342,044
State sources	2,776,255	0	2,776,255
Federal sources	294,287	0	294,287
Total revenues	<u>4,825,028</u>	<u>703,807</u>	<u>5,528,835</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	2,348,695	71,315	2,420,010
Special	1,055,656	0	1,055,656
Other	199,951	146,416	346,367
	<u>3,604,302</u>	<u>217,731</u>	<u>3,822,033</u>
Support services:			
Student	66,610	0	66,610
Instructional staff	171,372	86,204	257,576
Administration	533,499	0	533,499
Operation and maintenance of plant	396,027	0	396,027
Transportation	296,975	0	296,975
	<u>1,464,483</u>	<u>86,204</u>	<u>1,550,687</u>
Other expenditures:			
Facilities acquisitions	0	271,535	271,535
Long-term debt:			
Principal	0	170,000	170,000
Interest	0	30,642	30,642
AEA flowthrough	185,155	0	185,155
	<u>185,155</u>	<u>472,177</u>	<u>657,332</u>
Total expenditures	<u>5,253,940</u>	<u>776,112</u>	<u>6,030,052</u>
Deficiency of revenues under expenditures	(428,912)	(72,305)	(501,217)
Other financing sources(uses):			
Transfers in	0	202,426	202,426
Transfers out	0	(202,426)	(202,426)
Total other financing sources(uses)	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balances	(428,912)	(72,305)	(501,217)
Fund balance beginning of year	1,193,464	714,118	1,907,582
Fund balance end of year	<u>\$ 764,552</u>	<u>641,813</u>	<u>1,406,365</u>

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION 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 17) \$ (501,217)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their useful lives as depreciation expense in the Statement of Activities. Depreciation expense, expenditures for capital assets, and loss on the disposal of capital assets in the current year is as follows:

Capital expenditures	\$ 136,600	
Depreciation expense	(185,121)	
Loss on disposal of capital assets	<u>(154,741)</u>	(203,262)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 170,000

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. 2,465

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 3,072

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 fund.

Compensated absences 69

Changes in net assets of governmental activities (page 14) \$ (528,873)

SEE NOTES TO FINANCIAL STATEMENTS

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

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 2,347
Accounts receivable	208
Inventories	3,358
Capital assets, net of accumulated depreciation	<u>44,134</u>
TOTAL ASSETS	<u>50,047</u>
LIABILITIES	
Interfund payable	19,607
Unearned revenues	<u>3,599</u>
TOTAL LIABILITES	<u>23,206</u>
NET ASSETS	
Invested in capital assets	44,134
Unrestricted	<u>(17,293)</u>
TOTAL NET ASSETS	<u>\$ 26,841</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 122,800
Other local revenue	662
TOTAL OPERATING REVENUES	123,462
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	126,048
Benefits	18,786
Supplies	105,113
Depreciation	4,691
TOTAL OPERATING EXPENSES	254,638
OPERATING LOSS	(131,176)
NON-OPERATING REVENUES:	
Interest	42
State sources	2,754
Federal sources	113,534
TOTAL NON-OPERATING REVENUES	116,330
Change in net assets, before capital contributions	(14,846)
Capital Contributions	33,764
Change in net assets	18,918
Net assets at beginning of year	7,923
Net assets end of year	\$ 26,841

SEE NOTES TO FINANCIAL STATEMENTS

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 122,879
Cash received from miscellaneous operating activities	662
Cash payments to employees for services	(144,834)
Cash payments to suppliers for goods or services	(91,936)
Net cash used in operating activities	(113,229)
Cash flows from non-capital financing activities:	
Borrowings from General Fund	11,074
State grants received	2,754
Federal grants received	99,749
Net cash provided by non-capital financing activities	113,577
Cash flows from investing activities:	
Interest on investments	42
Net increase in cash and cash equivalents	390
Cash and cash equivalents at beginning of year	1,957
Cash and cash equivalents at end of year	\$ 2,347
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (131,176)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,785
Depreciation	4,691
Increase in inventories	(608)
Increase in accounts receivables	(157)
Increase in unearned revenue	236
Net cash used in operating activities	\$ (113,229)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 2,347

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2009, the District received Federal commodities valued at \$13,785.

During the year ended June 30, 2009, the Nutrition Fund received contributed capital of \$33,764 from the Capital Projects.

SEE NOTES TO FINANCIAL STATEMENTS

EAST UNION COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

The East Union 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 Afton, Iowa, and the predominate agricultural territory in Union, Madison, Ringgold, and Clarke 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, East Union 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 East Union 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 Union, Madison, Ringgold, and Clarke 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 non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 Non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 non-major 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 District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

### C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise 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 non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund 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, 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	\$ 1,500
Buildings	1,500
Improvements other than buildings	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

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
Improvements other than buildings	20 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 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.

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 governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. 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 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.

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 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.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,053,596

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) Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nutrition Fund	<u>\$ 19,607</u>

Nutrition Fund owes the General Fund for overpayments. These should be paid back by October 1, 2009 otherwise the District must find different alternative financing for the interfund amounts.

**(4) Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 202,426</u>

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

The Capital Projects Fund transferred monies to the Debt Service Fund for the debt payment of its Revenue Bonds.

**(5) Capital Assets**

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

	<u>Balance</u>		<u>Balance</u>	
	<u>Beginning</u>		<u>End</u>	
	<u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,205	0	0	14,205
Construction in progress	412,599	15,708	161,140	267,167
Total capital assets not being depreciated	<u>426,804</u>	<u>15,708</u>	<u>161,140</u>	<u>281,372</u>
Capital assets being depreciated:				
Buildings	3,782,088	60,097	0	3,842,185
Land improvements	200,897	0	0	200,897
Machinery and equipment	1,016,965	67,194	19,867	1,064,292
Total capital assets being depreciated	<u>4,999,950</u>	<u>127,291</u>	<u>19,867</u>	<u>5,107,374</u>
Less accumulated depreciation for:				
Buildings	1,949,960	80,748	0	2,030,708
Land improvements	91,171	8,045	0	99,216
Machinery and equipment	672,390	96,328	19,867	748,851
Total accumulated depreciation	<u>2,713,521</u>	<u>185,121</u>	<u>19,867</u>	<u>2,878,775</u>
Total capital assets being depreciated, net	<u>2,286,429</u>	<u>(57,830)</u>	<u>0</u>	<u>2,228,599</u>
Governmental activities capital assets, net	<u>\$ 2,713,233</u>	<u>(42,122)</u>	<u>161,140</u>	<u>2,509,971</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 47,687	33,764	0	81,451
Less accumulated depreciation	32,626	4,691	0	37,317
Business type activities capital assets, net	\$ 15,061	29,073	0	44,134

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instructional:	
Regular	\$ 2,329
Support services:	
Instructional staff	23,355
Operation and maintenance of plant operations	3,924
Transportation	66,720
	<u>96,328</u>
Unallocated depreciation	88,793
	<u>88,793</u>
Total governmental activities depreciation expense	\$ 185,121
Business type activities:	
Food services	\$ 4,691

#### (6) 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	\$ 930,000	0	170,000	760,000	180,000
Compensated absences	6,215	6,146	6,215	6,146	6,146
Total	\$ 936,215	6,146	176,215	766,146	186,146

#### Revenue Bonds Payable

Details of the District's June 30, 2009 revenue bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue January 1, 2004		
		Principal	Interest	Total
2010	3.15 %	\$ 180,000	23,842	203,842
2011	3.40	185,000	17,862	202,862
2012	3.65	195,000	11,158	206,158
2013	3.80	200,000	3,800	203,800
Total		\$ 760,000	56,662	816,662

The District has pledged future statewide sales and services tax revenues to repay the \$1,500,000 bonds issued on January 1, 2004, for the purposes of the construction of a new high school building. The bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District and are payable through 2013. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 50.41 percent of the statewide sales and services tax revenues. The total principal and interest remaining on the notes are \$816,662. For the current year, \$199,142 of principal and interest was paid on the bonds issued on January 1, 2004. Total statewide sales and services tax revenues for the year were \$404,390.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008, and 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$194,357, \$179,655 and \$155,134, respectively, equal to the required contributions for each year.

**(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 \$185,155 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Deficit Net Assets**

The Nutrition Fund had a deficit unrestricted net assets at June 30, 2009 of \$17,293.

**(11) Categorical Funding**

The District's ending balances for categorical funding by project as of the end of the year are as follows:

<u>Project</u>	<u>Amount</u>
Talented and gifted	\$ 70,031
Four-year-old Preschool State Aid	3,632
Community Partnership (Tobacco Settlement)	1,143
Market factor incentives	310
Total	<u>\$ 75,116</u>

**(12) Construction Commitment**

The District has entered into contracts totaling \$273,000 for construction of a track at the high school. As of June 30, 2009, costs of \$267,167 had been incurred against the contracts. The balance of \$5,833 remaining at June 30, 2009 will be paid as work on the project progresses.

**(13) Other Postemployment Benefits (OPEB)**

GASB Statement Number 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 Number 45 for the year ending June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

EAST UNION 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 Actual	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 2,458,293	123,504	2,581,797	2,834,782	2,834,782	(252,985)
State sources	2,776,255	2,754	2,779,009	3,181,662	3,181,662	(402,653)
Federal sources	294,287	113,534	407,821	475,000	475,000	(67,179)
Total revenues	5,528,835	239,792	5,768,627	6,491,444	6,491,444	(722,817)
<b>Expenditures/Expenses:</b>						
Instruction	3,822,033	0	3,822,033	4,774,454	4,774,454	952,421
Support services	1,550,687	0	1,550,687	2,083,445	2,083,445	532,758
Non-instructional programs	0	254,638	254,638	267,379	267,379	12,741
Other expenditures	657,332	0	657,332	1,171,399	1,171,399	514,067
Total expenditures/expenses	6,030,052	254,638	6,284,690	8,296,677	8,296,677	2,011,987
Excess(deficiency) of revenues over(under) expenditures/expenses	(501,217)	(14,846)	(516,063)	(1,805,233)	(1,805,233)	1,289,170
Other financing sources, net	0	33,764	33,764	0	0	33,764
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(501,217)	18,918	(482,299)	(1,805,233)	(1,805,233)	1,322,934
Balance beginning of year	1,907,582	7,923	1,915,505	1,805,233	1,805,233	110,272
Balance end of year	\$ 1,406,365	26,841	1,433,206	0	0	1,433,206

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION 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.

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.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Student Activity	Manage- ment Levy	Physical Plant & Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 112,715	70,709	40,318	223,742	55,390	346,425	625,557
Receivables:							
Property tax:							
Current year delinquent	0	2,106	838	2,944	0	0	2,944
Succeeding year	0	95,001	39,392	134,393	0	0	134,393
Accounts	1,531	0	0	1,531	0	0	1,531
Due from other governments	0	1	1	2	62,778	0	62,780
<b>TOTAL ASSETS</b>	<b>\$ 114,246</b>	<b>167,817</b>	<b>80,549</b>	<b>362,612</b>	<b>118,168</b>	<b>346,425</b>	<b>827,205</b>
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 585	985	0	1,570	49,429	0	50,999
Deferred revenue:							
Succeeding year property tax	0	95,001	39,392	134,393	0	0	134,393
	585	95,986	39,392	135,963	49,429	0	185,392
Fund balances:							
Reserved:							
Debt service	0	0	0	0	0	346,425	346,425
Unreserved	113,661	71,831	41,157	226,649	68,739	0	295,388
Total fund balances	113,661	71,831	41,157	226,649	68,739	346,425	641,813
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 114,246</b>	<b>167,817</b>	<b>80,549</b>	<b>362,612</b>	<b>118,168</b>	<b>346,425</b>	<b>827,205</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION 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
	Student Activity	Manage- ment Levy	Physical Plant & Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 0	95,025	37,841	132,866	404,390	0	537,256
Other	147,551	9,801	19	157,371	7,405	1,775	166,551
TOTAL REVENUES	147,551	104,826	37,860	290,237	411,795	1,775	703,807
EXPENDITURES:							
Current:							
Instruction:							
Regular	0	71,315	0	71,315	0	0	71,315
Other	146,416	0	0	146,416	0	0	146,416
Support services:							
Instructional Staff	0	0	0	0	86,204	0	86,204
Other expenditures:							
Facilities acquisitions	0	0	0	0	271,535	0	271,535
Long-term debt:							
Principal	0	0	0	0	0	170,000	170,000
Interest and fiscal charges	0	0	0	0	0	30,642	30,642
TOTAL EXPENDITURES	146,416	71,315	0	217,731	357,739	200,642	776,112
Excess(deficiency) of revenues over (under) expenditures	1,135	33,511	37,860	71,371	54,056	(198,867)	(72,305)
Other financing sources(uses):							
Transfer in	0	0	0	0	0	202,426	202,426
Transfer out	0	0	0	0	(202,426)	0	(202,426)
Total other financing sources(uses)	0	0	0	0	(202,426)	202,426	0
Net changes in fund balances	1,135	33,511	37,860	71,371	(148,370)	3,559	(73,440)
Fund balance beginning of year	112,526	38,320	3,297	154,143	217,109	342,866	714,118
Fund balance end of year	\$ 113,661	71,831	41,157	226,649	68,739	346,425	641,813

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUNDS  
 JUNE 30, 2009

	Local Option/ Statewide Sales and Service Tax	Playground Capital Projects	Total Capital Projects Funds
<b>ASSETS</b>			
Cash and pooled investments	\$ 53,960	1,430	55,390
Due from other governments	62,778	0	62,778
<b>TOTAL ASSETS</b>	<b>\$ 116,738</b>	<b>1,430</b>	<b>118,168</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 49,429	0	49,429
Fund balances:			
Unreserved	67,309	1,430	68,739
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 116,738</b>	<b>1,430</b>	<b>118,168</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECTS FUNDS  
 YEAR ENDED JUNE 30, 2009

	Local Option/ Statewide Sales and Service Tax	Playground Capital Projects	Mobile Computer Lab	Total Capital Projects Funds
REVENUES:				
Local sources:				
Local tax	\$ 404,390	0	0	404,390
Other	1,029	0	6,376	7,405
TOTAL REVENUES	405,419	0	6,376	411,795
EXPENDITURES:				
Current:				
Support Services:				
Instructional Staff	79,828	0	6,376	86,204
Other expenditures:				
Facilities acquisitions	265,379	6,156	0	271,535
TOTAL EXPENDITURES	345,207	6,156	6,376	357,739
Excess (deficiency) of revenues over (under) expenditures	60,212	(6,156)	0	54,056
Other financing uses:				
Transfer out	(202,426)	0	0	(202,426)
Net change in fund balances	(142,214)	(6,156)	0	(148,370)
Fund balance beginning of year	209,523	7,586	0	217,109
Fund balance end of year	\$ 67,309	1,430	0	68,739

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
MS boys basketball	\$ 572	250	0	822
MS football	793	330	0	1,123
MS baseball	184	305	0	489
MS boys track	358	260	81	537
MS wrestling	475	224	0	699
MS girls basketball	853	225	0	1,078
MS volleyball	236	300	0	536
MS softball	1,006	175	0	1,181
MS girls track	331	260	80	511
MS student council	1,317	6,387	3,594	4,110
Drama	3,468	3,098	2,008	4,558
Vocal music	17,647	9,224	11,429	15,442
Instrumental music	3,441	7,388	10,447	382
HS boys basketball	1,052	1,284	774	1,562
HS football	1,719	6,553	5,568	2,704
HS baseball	7	1,446	685	768
HS boys track	178	1,579	944	813
HS golf	1,020	180	192	1,008
Weight room	232	1,049	0	1,281
HS wrestling	659	985	617	1,027
HS girls basketball	1,187	2,296	1,055	2,428
HS volleyball	702	4,485	3,298	1,889
HS softball	691	3,279	2,743	1,227
HS girls track	1,024	3,264	2,596	1,692
HS girls golf	1,115	152	91	1,176
General athletics	36,785	18,457	21,945	33,297
Cheerleaders	1,470	600	42	2,028
Class of 2009	7,092	10,913	18,005	0
Class of 2010	1,242	16,839	9,791	8,290
Class of 2011	710	4,269	2,558	2,421
Class of 2012	0	120	17	103
Concessions	1,908	200	68	2,040
FFA	8,041	16,399	18,966	5,474
FCCLA	2,015	7,136	7,889	1,262
Now account interest	0	27	27	0
National honor society	40	28	29	39
Yearbook	0	10,919	6,279	4,640
Science club	1,907	930	631	2,206
Spanish club	1,289	1	0	1,290
Student council	1,904	5,420	5,971	1,353
Vocational agriculture	175	0	0	175
2008 yearbook	7,681	315	7,996	0
Total	\$ 112,526	147,551	146,416	113,661

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

EAST UNION 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	\$ 1,987,464	1,935,751	2,188,764	2,138,771	1,904,633	1,802,600
Tuition	128,785	94,981	64,103	60,448	45,634	62,243
Other	342,044	443,423	577,225	530,708	461,352	426,612
State sources	2,776,255	2,852,537	2,497,099	2,258,608	2,189,660	2,134,366
Federal sources	294,287	317,361	356,786	395,753	660,075	593,982
<b>Total</b>	<b>\$ 5,528,835</b>	<b>5,644,053</b>	<b>5,683,977</b>	<b>5,384,288</b>	<b>5,261,354</b>	<b>5,019,803</b>
Expenditures:						
Instruction:						
Regular	\$ 2,420,010	2,188,154	1,957,053	1,861,322	1,694,655	1,660,307
Special	1,055,656	641,748	636,887	552,802	453,198	1,111,379
Other	346,367	750,655	733,997	793,753	1,063,047	304,524
Support services:						
Student	66,610	85,589	72,179	68,461	66,868	102,410
Instructional staff	257,576	156,977	213,212	163,014	99,174	84,091
Administration	533,499	513,764	435,934	431,359	386,224	419,226
Operation and maintenance of plant	396,027	455,939	371,620	355,242	331,774	321,013
Transportation	296,975	492,979	289,201	314,779	245,561	260,617
Other expenditures:						
Facilities acquisitions	271,535	552,245	153,407	206,641	480,552	979,330
Long-term debt:						
Principal	170,000	165,000	155,000	145,000	105,000	0
Interest	30,642	34,578	41,838	47,238	51,738	560
AEA flow-through	185,155	178,972	163,035	153,606	153,203	155,177
<b>Total</b>	<b>\$ 6,030,052</b>	<b>6,216,600</b>	<b>5,223,363</b>	<b>5,093,217</b>	<b>5,130,994</b>	<b>5,398,634</b>

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  
East Union 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 East Union 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 February 9, 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 East Union 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 East Union Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of East Union 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 East Union 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 East Union Community School District's financial statements that is more than inconsequential will not be prevented or detected by East Union 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 East Union 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 East Union 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.

East Union 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 East Union 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 East Union Community School District and other parties to whom East Union 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 East Union Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 9, 2010

EAST UNION 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 reported.

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 District tries to segregate duties where possible.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

- II-A-09 Certified Budget - District disbursements 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 - The number of basic enrolled students reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2008 was overstated by one student. This resulted in overstating the total actual enrollment at line 7 by 1 student.
- Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.
- Response - The Iowa Department of Education has been contacted to correct this issue.
- Conclusion - Response accepted.
- 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 used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Service Tax - During our audit, there was no instances of non-compliance noted with the use of the statewide sales and services tax revenue provisions Chapter 423F.3 of the Code of Iowa.

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 and services tax. For the year

ended June 30, 2009, the District's financial activity and other required information for the statewide sales services tax are as follows:

Beginning Balance		\$	0
Statewide sales and services tax revenue			<u>404,390</u>
Expenditures/transfers out:			
School infrastructures:			
Buildings	\$	201,964	
Debt service for school infrastructure:			
Revenue bond debt		<u>202,426</u>	<u>404,390</u>
Ending Balance		\$	<u><u>0</u></u>

II-L-09 Checks Outstanding - We noted during our audit that the District had checks included in the General and Activity Funds bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided, or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>.

Response - Outstanding checks are looked at and addressed.

Conclusion - Response accepted.

II-M-09 Student Activity Fund - During our audit, issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "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 a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

The Student Council had made a donation to an outside private organization. The Iowa Department of Education's Uniform Accounting Manual states that "all funds from all student organizations and activities residing in the school district funds including the student activity fund are owned by the school district. "Student activity funds may not in any event be devoted or allocated to any private organization nor may they be added to the general fund. These funds shall be maintained in a student activity fund supervised by the board (O.A.G. #46-3-26)."

Currently, the Board of Directors do not approve fundraisers. A board may regulate fundraising activity during school and school sponsored events, and it may regulate the use of funds derived from those sources (OAG #83-9-1).

We recommend that the Board of Directors at its annual organizational meeting, approve a list of fundraisers that the District wants to participate in, the purpose of those fundraiser, and the distribution of funds each fund raiser.

Response - The student organizations fill out a form including the type of fundraiser and the dissemination of the proceeds. All fundraising is presented to and approved by the Board of Directors. Proceeds will be receipted into the fund that can legally expend them.

Conclusion - Response Accepted.

II-N-09 Financial Condition - The District had a deficit net assets balance of \$17,293 in the Nutrition Fund.

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

Response - The District is still looking at the deficit in Nutrition Fund with the possibility of a resolution for a General Fund transfer.

Conclusion - Response Accepted.